

# Nation's Business

JUNE 1979

the business advocate magazine

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# Nation's Business

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Nation's Business is the business advocate magazine leading the effort to strengthen the private enterprise system to advance human progress.

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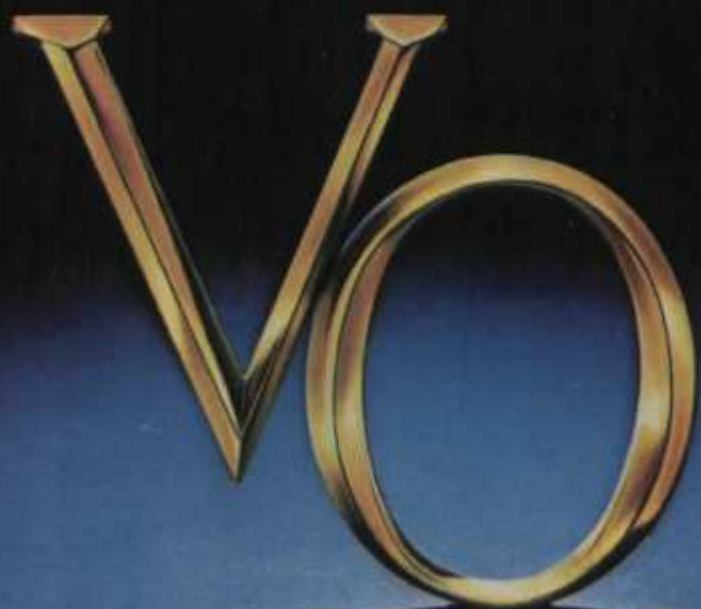


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# The Nation's Business WASHINGTON LETTER

► **FEDERAL SPENDING MUST SLOW DOWN.** That message rang loudly and clearly from most delegates at the National Chamber's annual meeting in the nation's capital last month.

Delegates came from Washington State, Missouri, Florida--from all over America. They said the federal budget must be cut, that deficit spending must end if inflation is to be controlled.

Of 980 responses to a questionnaire, 82 percent agreed with this.

► **MOST DISTURBING ASPECT** of government growth is increasing influence of bureaucracies over important areas of people's lives.

That's according to 51 percent of those who responded to National Chamber annual meeting poll.

NOTE: In rating President on his efforts to make federal government more efficient, reduce bureaucracy, and lessen paperwork, 82 percent said he was unsuccessful.

In another poll, 68 percent of respondents said their required paperwork burden is greater now than last year.

► **SMALL BUSINESS** reporting requirements must be eased, says majority of 242 delegates responding to small business poll.

Of six specific regulatory issues, this received largest response, 68 percent.

Majority also would like to see reduction in corporate and individual tax rates, further reduction in capital gains tax, and increased incentives for savings.

► **THAT LIST OF CHEMICALS** the industry has been waiting for was published in the Federal Register early this month

by the Environmental Protection Agency.

It kicks off a process some industry experts say will have a devastating impact on chemical firms, users, everyone.

Any new chemicals must undergo a special notification process, which may require extensive testing. Experts say some tests can cost hundreds of thousands of dollars. Also, some chemicals on the inventory will have to be put through further checks.

All this is expensive; it will hit hardest the 1,500 to 2,000 smaller chemical firms in the United States.

► **PENICILLIN**, A BOON to combating disease, probably would not have been commercially introduced in the bureaucratic environment of today.

That's according to Robert A. Roland, president of the Manufacturing Chemists Association. His comments were made recently on a What's the Issue? radio program produced by the National Chamber and aired over Mutual Broadcasting System and other stations.

He says with the publication by EPA of the inventory of chemicals and the requirements it creates, "there will be a reduction of new products introduced."

He says government regulations are creating an atmosphere where risk is not worth taking--and that will halt growth.

► **ALL REVISED CLEAN AIR** implementation plans from the states are supposed to be approved by Environmental Protection Agency by July 1.

So says the law.

But there are problems. Only about half the states has submitted plans thus far. Also, sources say EPA is having trouble in approving plans, may not be able to give nod for



several months. Technically, all major construction could come to a halt July 1 in most parts of the nation.

No plans approved, no construction. That's also the law.

But sources say EPA is softening slightly, might compromise on case-by-case basis.

ITEM: EPA asks Congress to create a fund to pay costs of cleaning up hazardous dumps and spills by oil, chemical firms, which would pay for fund.

Our sources say some form of it probably will pass. They also warn the issue could grow to encompass more than oil, chemical industries.

► PRIVATE INDUSTRY COUNCILS--if you haven't heard of them yet, you may soon.

They're part of a new Labor Department effort to bring private business more into the subsidized jobs picture.

These councils, comprised of local business, other leaders, will play key role in guiding federally subsidized job efforts to fit private employer needs.

Each of the 450-plus prime sponsors under the nationwide public service jobs program is to have its own council.

Overall purpose: Find private sector jobs for hard-core unemployed.

Also, businesses may qualify for sizable tax breaks when hiring certain unemployed individuals.

For more information, contact your local state employment or CETA office.

► WORKERS' COMPENSATION costs at least \$18 billion a year now, industry experts say, and if some members of Congress have their way, it's sure to cost more.

Legislation federalizing state workers' compensation benefits is before Senate Human Resources Committee. Several days of hearings on the bill, S. 420, have already been held.

Industry sources say the bill has a chance of passing.

Labor Secretary Ray Marshall recently supported concept of federal benefit standards before Senate committee. This lends weight to issue.

He did not, however, voice support of S. 420.

Business funds workers' compensation,

and some experts on this issue voice fear federal involvement will cause costs to escalate further.

► MAXIMUM COMPENSATION would climb to 100 percent of state average weekly wage by 1982 under S. 420.

By 1984, it would go even higher--to 150 percent.

Currently, about half of states halts benefits at less than 100 percent of state average weekly wage.

S. 420 also sets minimum payment: 50 percent of state average wage or worker's gross wage, whichever is lower.

One expert says "higher benefits create a greater incentive to milk the system." He sees federalizing benefits as inflationary.

Workers' compensation costs are climbing at more than 20 percent a year.

Sen. Orrin G. Hatch (R.-Utah) says S. 420 would "lead to a complete breakdown of our workers' comp system."

► OUTLOOK FOR TAX CUT in 1979 is very bleak, mostly due to balance-the-budget fever in Congress.

But watch what happens next year, especially as presidential, congressional races heat up.

National Chamber economists see an excellent possibility for an income tax cut next year, to take effect the following year.

How much? Possibly as much as \$15 billion.

But the size of the cut would be purely political and, in reality, would not amount to much.

Average household taxes will climb next year by an estimated \$800. Tax cut of \$15 billion would reduce that increase by only about \$200. Result: taxes still go up \$600.

► ONE-CENT STAMP TO CONTACT CONGRESS?

Sen. Daniel K. Inouye (D.-Hawaii) has introduced a bill which provides for one-cent postage for those who write to their congressmen.

Chance of its passage seems poor. Many congressional offices are literally swamped with mail. In fact, Congress receives 80 million-plus letters a year.



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Bonn	2221	Essen	201	Nürnberg	911
Bremen	421	Hamburg	40	Stuttgart	711
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\*Suggested retail price.

Get the whole story.



# Stubborn Gas Deposits Yield to Fracturing

PHOTO: HALLIBURTON



Nearly three million pounds of sand were mixed with water and chemicals to make this molasses-like goo, which was forced down a two-mile well to crack open rock and release natural gas. The process could double present reserves.

**M**ASSIVE hydraulic fracturing, a technique that could nearly double gas well production, was successfully demonstrated on a large scale for the first time by the Mitchell Energy & Development Corp. of Houston.

The company says gas flow from its Muse-Duke No. 1 well in Limestone County, Texas, was boosted from 1.7 million to four million cubic feet a day. Eventually, the process should produce two or three times more gas from a well, compared with the yield using conventional recovery techniques.

Starting last fall, Mitchell pumped a molasses-like mixture of water, chemicals, and 2.8 million pounds of sand under 10,000 pounds of pressure per square inch down the 2 7/8-inch diameter pipe of a well two miles deep.

The object was to split open the rock at the bottom of the well into a one-mile-long, 210-foot-high fissure up to an inch wide. When the liquid dissipated, the sand remained, propping open the fissure and allowing natural gas to

escape. The difference between conventional techniques and the new method is the difference between an economically marginal well and one that is extremely productive.

Beyond the successful fracturing, the company says it now has the data and experience to repeat the process in 12 other areas in the United States known for their "tight gas basins," which simply means the gas has to seep through hard rock. Although these basins contain vast amounts of natural gas, the technology to recover the gas economically has not been available until now.

A study by Lewin & Associates, Inc., Washington, D.C., projects that advances such as massive hydraulic fracturing, plus raising prices from \$1.75 to \$3 per thousand cubic feet, can increase recoverable reserves in the nation's tight gas basins by more than 180 trillion cubic feet, nearly doubling the present reserves of 184 trillion cubic feet.

Financing for the \$1.8 million Mitchell project was aided by a \$553,000 Energy Department grant.

## Natural Gas Touted as Solar Backup

Solar home heating and hot water systems installed in 1985 and backed up by natural gas will cost an average of 35 percent less to install and operate than electric-backed solar systems, according to the American Gas Association.

An AGA study shows that gas-solar home systems will average \$1,718 in ownership and operating costs per year in all regions of the nation, compared with \$2,639 yearly for an electric-solar system, even one with an advanced heat pump.

Four categories of heating systems and their projected annual operating costs were compared.

The results: Conventional gas heating would cost \$835 annually; gas-solar, \$1,718; conventional electric systems with heat pumps, \$2,280; and combination electric heat pump and solar, \$2,639.

## Television Monitor Spots Pollution

A new device for monitoring the environment has been developed by the National Aeronautics and Space Administration.

The environmental monitor, called a stack plume visualization system, can detect the amount of sulfur dioxide emission—as high as 3,000 parts per million—by scanning the absorption of ultraviolet radiation registered against the sky.

The license to manufacture the pollution detector has been granted by NASA to Research Ventures, Inc., Williamsburg, Va.

The detection device will consist of a



Report on today's foresighted trucking industry

# MAKING FUEL GO FARTHER FOR AMERICA

Those fabled 18-wheelers are not only vital links in America's economy. They're also, on a weight/mile basis, the most fuel-efficient vehicles on the road. And today's truck manufacturers and motor carriers keep working to make them more so.

## Advanced aerodynamics

Air resistance drags down fuel economy. So newer linehaul tractors are scientifically shaped to reduce air drag. Roof air shields often can improve air flow around high trailers, too.



## Reduced deadweight

Cut truck weight by 1,000 lbs. and that much payload gets a fuel-free ride. Today's highway tractors offer many weight-saving options—and trailers are trimmer, too.



## Fuel-efficient engines

Inherently efficient, diesels come in sophisticated versions that can be matched to operations for maximum economy.

## Less parasitic loss



An engine's fan can consume 8% of its power output, even when the cooling isn't required. Solution: "smart" fans that operate only when needed.

## 18 radial tires

Radials are big with 18-wheelers for a good reason. Tests indicate they can provide measurable fuel savings in many applications.

## Good driving habits

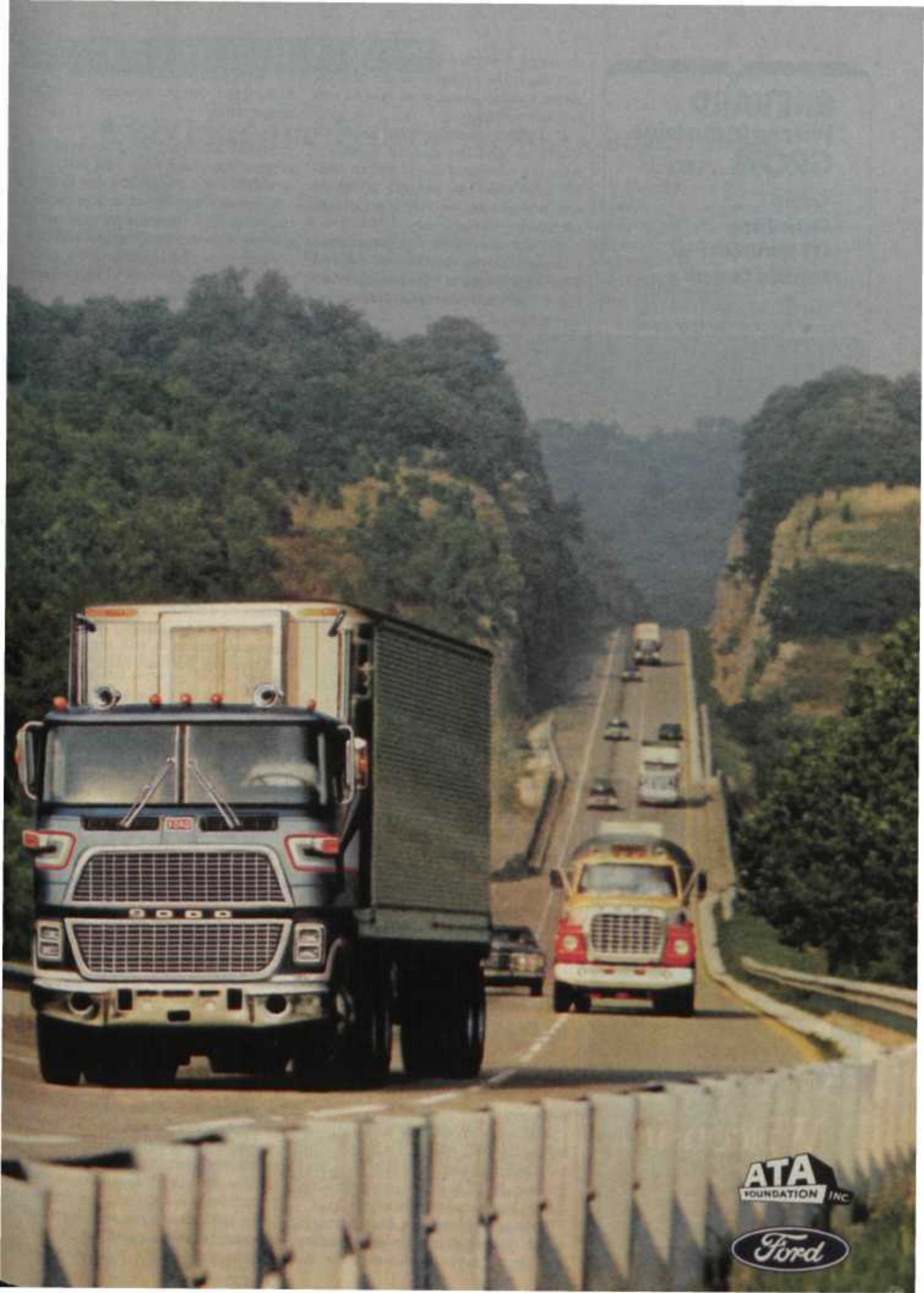
Drivers are a contributing factor to economical truck operation—and linehaul drivers are pros. Their common-sense rules include reasonable road speeds, avoidance of sudden stops and starts, no prolonged idles, tire pressure checked regularly.

## ATA-backed National Truck Fuel Test checks economy

This intensive test evaluated every measure listed above and many more. The findings: potential fuel savings, depending on operations, can total as much as 25%. Imaginative conservation is putting the industry on the road to that goal...

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standard television monitor, which will show the emission levels and instruct a plant operator on how to correct the problem.

R. J. Exton, president of Research Ventures, says the monitor measures both the concentration of sulfur dioxide to within ten percent of actual amounts and the velocity of pollutants with 95 percent accuracy.

Mr. Exton believes the device, now commercially available at around \$32,700, will lead to improved monitoring of air pollution and better coal cleaning equipment.

## Worldwide Battery Market Will Peak in the 1980s

The consumer electronics battery industry, born in the 1960s, is expected to be full grown in the 1980s.

According to a West Coast marketing firm, the worldwide market for small primary (nonrechargeable) and secondary (rechargeable) batteries used in homes, computers, and emergency lighting systems will reach \$7.7 billion by 1983.

This figure represents an annual growth rate of nearly 13 percent.

One segment—premium, nonrechargeable cells such as alkaline, mercuric and zinc-oxide, zinc-air, and lithium—is expected to generate about \$1.2 billion in sales within five years. This is a compound annual growth rate of 18.7 percent.

The battery boom is expected in many existing applications such as digital watches, calculators, medical products, home smoke and fire alarms, photographic equipment, flashlights, radios, toys, tape recorders, military and aerospace uses, industrial security and emergency lighting equipment, and semiconductor computer memory backups.

## Tire Makers Will Focus on Design Refinements

American tires will roll smoother and lighter in the mid-1980s, resulting in fuel savings for drivers and manufacturers.

Engineers expect that tires with significantly less rolling resistance will help automakers meet the 1985 fleet average of 27.5 miles per gallon required by federal regulations.

"Basically, there are four areas in which to concentrate to lessen rolling resistance," says a spokesman for the

Firestone Tire & Rubber Co. "These are tire construction, inflation pressure, tread compounds, and internal components."

Radial tires, for example, can improve fuel efficiency by as much as ten percent compared with bias belt construction.

Engineers are also trying to reduce the weight of the tires to help automakers reduce overall weight and fuel consumption. Steel-belted radial tires, therefore, may give way to light, fiber-glass-belted radials.

Firestone, along with other tire companies, is also working on spare tires that will be much lighter and temporary.

The goal—to get rid of the spare tire altogether—requires regular tires that will run safely until they are flat. A practical low-pressure warning device will be needed to alert drivers of tire problems ["Device Warns Drivers of Low Tire Pressure," March].

A Firestone spokesman says it will be the mid-1980s before cars are equipped with run-flat tires, thereby eliminating the need for a spare tire.

Looking ahead, Firestone executives expect no drastic changes in tire types. "There will be a number of tire developments, but most will center on refinements of the basic radial design."

## Microprocessors Are Getting into Everything

Microprocessors, tiny computers that serve as the brain in everything from microwave ovens to automotive components, are spawning countless new products, markets, and industries, says a study.

"What we're experiencing is an explosion rather than an evolution in the application of technology," says Jerry Wasserman, project director of the Arthur D. Little Co. study on the impact of microelectronic products on business through the 1980s.

A conservative estimate is a \$30 billion market by 1981 in the United States, the United Kingdom, West Germany, and France for products and processes using microprocessors, he says. That translates into 400 million or so processors in use.

One booming area for microprocessors is very small computers targeted for companies with annual sales under \$1 million.

By 1987, that area will have gone essentially from zero to a \$1.5 billion market, predicts Mr. Wasserman. □

NATION'S BUSINESS • JUNE 1979

## Business quiz.

1. Where did they eliminate property taxes on manufacturing machinery and equipment used in production?
2. Where do you find a 90% exemption from property taxes on business inventories? (Exemption will increase to 100% in 1981.)
3. Where in the Midwest do you find the lowest Workers Compensation rates?
4. Where in the Midwest was 9 million square feet of new manufacturing space constructed in 1978?
5. Where has a \$950 million tax reduction package been approved in 1979?

## Wisconsin.

Write: Wisconsin Department of  
Business Development, Suite 651,  
123 West Washington Avenue,  
Madison, WI 53702.

608-266-3222



## Checking the Federal Trade Commission

I want to congratulate the Chamber of Commerce of the United States for supporting Rep. James T. Broyhill's proposal to give Congress veto power over rules made by the Federal Trade Commission. [Outlook, Trends, April] It is amazing that a federal bureaucracy should have such broad, unchecked power.

FTC employees have never been elected by the people whom they feel need so much protection. However, they can make rules that automatically become the law of the land and take precedence over any conflicting state laws.

Laws affecting the individual so directly should be made by state legislatures, which know the needs of their citizenry much better than any Washington bureaucrat.

W. REYNOLDS SISSON  
Newport, Pa.

### Government competition

I read with great interest your article on the postal service ["U. S. Postal Service: A Monopoly Trying to Beat the Competition," May].

Milton Stewart, chief counsel for advocacy in the Small Business Administration, is a man dedicated to carrying the banner for small business in this country.

I don't think anyone realizes the scope and effect of government competition with small business. I find it amazing that this country has no formal, supportive policies of small business when small business adds so much to the stability of the economy.

I look forward to future articles on competition between big government and small business.

DALE V. NELSON  
Building Maintenance Service, Inc.  
Des Moines, Iowa

### Right place, wrong party

NATION'S BUSINESS has long been a source of helpful and reliable information, and your April issue was no exception. In fact, had I missed the item on the Ex-Im Bank hotline [Outlook, Corporations], I might very well have missed the news of my conversion to the party of Jefferson and Jackson.

NATION'S BUSINESS • JUNE 1979

A quick check with the Board of Elections in Butler County, Ohio, confirmed that I am still registered as a Republican, and with that news in hand, I was able to persuade the leadership to allow me to continue to sit on the Republican side of the aisle.

But we take our Republicanism pretty seriously in southwestern Ohio, and retaining my seat on the party's county executive committee was a little bit trickier.

Just when I thought I had everything nailed down, I got a call from my



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mother, who insists that the editors of NATION'S BUSINESS are far more credible than her son. I do wish you would drop her a line and tell her it was a mistake. She's been eyeing me rather suspiciously these days.

THOMAS N. KINDNESS (R-OHIO)  
U. S. House of Representatives  
Washington, D. C.

Editor's Note: Mrs. Kindness may rest assured. Her son is a Republican.

### Computer savings

The article on computers [People in Business, April] gave me an excellent perspective of their role.

However, computers can help save costs. They are merely tools similar to other machinery and provide mechanical leverage. When applied to manufacturing, this leverage makes it possible to produce more at less cost, thereby improving productivity.

The computer is mechanical leverage for the mind in the same way that industrial machinery is mechanical leverage for human muscles. When misapplied, this equipment ends up costing more than it saves. Unfortunately, misapplication is more often the rule than the exception. For a number of strange reasons, management hasn't been as demanding with this technology as with other facets of business.

MILT BRYCE  
President  
M. Bryce & Associates, Inc.  
Cincinnati, Ohio

### Meaningful reporting

Misunderstanding of profit and loss could be reduced by improvements in business reporting. Figures of a company's earnings should be related to a significant base ["Of Red Herrings and Real Profits," May].

Earnings announced as a percentage of equity capital or total capital or sales would be more meaningful than dollars only. A money figure alone tells less than should be known.

Adjustment for inflation should also be suggested. Cannot managements do more than to inform the public about real earnings—or losses?

C. LOWELL HARRISS  
Professor of Economics  
Columbia University  
New York, N. Y.

### Private industry's role

Historically, little or no insurance benefits were available for out-patient treatment or preventative measures.

Unfortunately, this situation is still

prevalent today. The health insurance industry's answer to rising medical costs has been rising premiums. Obviously, this spiral must stop. The major purchasers of group health insurance must insist on cost-effective benefit packages.

The private health insurance industry, through its underwriting practices, invited increased federal involvement in health care. For example, people over 65 were excluded from most group health insurance contracts. The government's answer to this obvious need was Medicare and Medicaid.

The industry has indeed made health insurance coverage more widely available. Unfortunately, it was this proliferation of availability which has led to the present turmoil. If and when national health insurance is enacted, the role of private industry must be clearly defined to ensure that the mistakes of the past will not be repeated.

THOMAS P. FINLEY  
Executive Director  
Greater Southern Arizona  
Professional Standards  
Review Organization  
Tucson, Ariz.

### Davis-Bacon wages

In New York, Davis-Bacon wage posting is based on prevailing wages ["Davis-Bacon Needs a Decent Burial," March]. Actually, the wages posted are an exact copy of the trade agreements. These prevailing wages are supposed to be determined from a survey of all workers in each classification in the particular area.

To my knowledge, these surveys have been requested but are rarely, if ever, taken.

JAMES J. QUAGLIANA  
President  
J. J. Quagliana, Inc.  
Corning, N. Y.

### Federal fringes

Federal workers are not only paid too much, they also have too many fringe benefits such as paid vacations, sick leave, and excessive pensions.

It is claimed that federal salaries are based on what is being paid in private industry, but where will you find a mere clerk or typist making \$17,000 a year and up with all the fringes?

It has been my experience that most federal workers are on the payroll not because work needs to be done but because the department head and immediate supervisors cannot continue to get increases unless they have X number of people on the payroll.

NATION'S BUSINESS • JUNE 1979



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MARTHA S. PAY  
San Francisco

#### Copy to Proxmire

Over the past 30 years of manufacturing, I have created three different businesses and increased employment in a two-county area by about 1,200 jobs. All of this has been made possible through the use of several Small Business Administration programs. Our very existence today is possible only because of the support of the SBA.

Sen. William Proxmire (D.-Wis.) wants to abolish the SBA because of abuses in the minority loan program. To me, his bill is another step in feder-

alizing the entire business community.

No need to repeat the impact that small business has on our gross national product—everyone knows it outside of Washington. Perhaps Sen. Proxmire should look into Washington's interference with the SBA's program for minorities before he criticizes the results.

Administration of SBA programs is always difficult because of the influence of politics and special interest groups.

Recently, you reported on George Shelton's four tries for an SBA loan and the final results he accomplished after receiving assistance ["Major Help for Minority Business Is on the Way," March].

Perhaps you should send a copy of that article to Sen. Proxmire.

JACK E. FERGUSON  
President  
Ferguson Manufacturing, Inc.  
Richmond, Mo.

lead the fight against inflation. The attitude of "do as I say and not what I do" must not prevail.

Your article diagnosed the causes of inflation, emphasized the critical areas, and then proceeded to state ways of arresting it.

BARBARA C. VARRICCHIO  
Cromwell, Conn.

#### Pleased reader

I am pleased that the response by readers of NATION'S BUSINESS was so overwhelmingly in support of a national initiative petition. [Sound Off Response: "Let the People Decide the Laws," March]

Thank you for your assistance in bringing this issue before the public.

JAMES R. JONES (D.-OKLA.)  
U. S. House of Representatives  
Washington, D. C.

#### Prototype for reform?

As chairman of the Milwaukee County Board's Welfare and Human Resources Committee, I read with some interest the article discussing the county's work assistance program as a prototype for welfare reform. ["Is Real Welfare Reform an Impossible Dream?" Jan.]

Before we get too excited about alleged panaceas or promising models for welfare reform, it should be understood that it costs three times as much to produce a small number of private sector jobs under the work assistance program as it does to pay general assistance and administer this local relief system.

Almost every work requirement in any welfare system will cost more than simply paying relief because of the unusual counseling and transition procedures required.

The question remains whether this work assistance program is cost-effective.

Everybody agrees that everything possible and practical should be done to provide employment to welfare recipients. But at some point the cost of accomplishing this siphons off funds needed for other public tasks. A balance of priorities must be maintained.

Further, federal welfare recipients differ markedly from those on state assistance. Let there be no illusion that any so-called solution for dealing with one population can be relevant or effective when applied to a different population.

R. MICHAEL METT  
Supervisor, 3rd District  
Milwaukee County, Wis.

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#### Punished for success

Your reference to the Federal Trade Commission's attack on our Formica trademark [Outlook, Trends, March] covered very well the current status of the legal steps taken as we defend ourselves in court.

Missing, unhappily, was any reference to the fact that this attack is unfair and unjustified. It is also a likely prelude to similar FTC actions against other famous trademarks.

Formica Corp. has been accused of no wrongdoing. Instead, we are being punished for success achieved in the best American tradition. Surely, it is obvious that this kind of unconscionable action by a federal agency will make it unattractive for companies to invest to bring new products to market.

MARTIN B. FRIEDMAN  
President  
Formica Corp.  
Wayne, N. J.

#### Anti-inflation formula

The article, "The Right Way to Control Inflation" [Feb.], was excellent reading.

Government must be managed like a successful business, the result being a stable or thriving economy.

Judging from the handling of federal spending and the social security system and considering the uncertainty of our present economy, the business of government is not doing too well.

As the expense of government increases, the stability of the economy decreases. Government leaders must

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# The Allison Automatics





## A Short Course in Media Relations

**T**HE FEDERAL GOVERNMENT jumps on the oil companies so constantly that it is hard to recall the specifics, but a recent image sticks in my mind. It's an image that every business person needs to think about.

On this particular occasion, the oil companies were being publicly charged with earning obscene profits, bribing foreign potentates, or something like that, and the television cameras were focused tightly on a spokesman for one of the biggies. He was a corpulent fellow in his sixties, dripping wealth and perspiration. His jowls fell in fat waterfalls over his collar, and his gut spilled over his waistband. If you had looked high and low for the worst possible image of American big business, you could not have found a better model. The gentleman could have walked out of one of the old Conde Nast cartoons depicting the robber barons.

This veritable tycoon—for so he appeared—was being questioned, and questioned fairly, on whatever issue had put him before the network cameras. He had a uniform response. It began with a "well, uh" and continued evasively through a series of stammered ambiguities. Watching this wretched performance, I reflected unhappily: Here is a fellow who heads a multibillion-dollar corporation; he is paid a salary of nearly \$1 million dollars a year; he must be a crackerjack executive; and he must have an encyclopedic knowledge of his industry or he wouldn't be where he is. Why doesn't somebody teach him how to handle himself when the little red light comes on?

That is only one of the questions that ought to be raised. The great corporations that make the most news have whole regiments of public relations advisers. Why don't the executives take their advice? Smaller companies also make news. Why don't their top people learn how to make news effectively? It's important not only to the individual companies but also to all business. Politically speaking, we live as much by images as we live by realities—maybe more so. In the long run, public policies will be shaped by the substantive facts that lie behind the fat man's evasions. For the short haul, opinions will be formed and decisions will be made according to the uh-uh-uh.

**W**HILE I MYSELF am no expert on public relations, I have been a part of the media—hated word—for nearly 40 years. I am minded now to conduct a short course in media relations for my friends in the business world.

Take television. It is the most powerful form of mass communication ever devised, and it is also the most insidious. Its technology trips up the un-

wary or inexperienced performer. Its impact works subtly on the viewer. I use the word performer deliberately. Much of television is closer to show biz than to the news biz. The screen functions as a stage, or at least as a lecture hall, which means that the impact is both visual and aural. I'm not sure how to describe the impact of a half-column of type on the business page, but I am certain it is less than the impact of 30 seconds on the morning TV news.

**F**OR THE GREAT CORPORATIONS—the level of the gasoline mogul—I would venture a modest suggestion: Let the Colossus Oil Co. employ some handsome, articulate fellow with a few years' experience as an anchorman on TV. This John D.



Barrymore would be skilled at looking the camera in the eye. He would speak crisply, but with a nice range of inflection. Colossus would anoint Mr. Barrymore as executive vice president in charge of operations, or perhaps as special assistant to the chairman of the board. He would need a full-blown title. Colossus would pay him \$100,000 a year, which is pocket change to Colossus. And when the call came from the network or from the Senate committee staff, Vice President Barrymore would smile confidently into the lens. "We categorically deny that we bribed the petroleum minister. The allegation is totally false." Of course, if the allegation is true, Mr. Barrymore will have to say something else, but he will say it fearlessly, with a blunt honesty that will win acclaim.

My suggestion might not go down well with Colossus. It would require considerable labor to stuff Mr. Barrymore's head with enough facts to fend off a well-informed reporter or to squelch a grand-



standing senator. There are alternatives. For the past two years, the Chamber of Commerce of the United States has conducted two-day training courses for corporate executives in how to handle themselves on TV. Eight executives at a time come to Washington for simulated interviews in the National Chamber's broadcasting studios. They face bright lights and tough questions. They look at themselves on tape. They learn techniques and body language—the telltale vocabulary of hands and feet and shifting eyes. And if they are good students and pay close attention, they will go back home and do better than a sweating uh-uh-uh when the next real-life occasion arises.

The National Chamber's short course is not the only means available to businessmen who want to improve their communication skills. Several journalism schools offer the same kind of services. With a little looking around, the wise executive can find the help he needs, and he won't have to be terrified by the beady red eye of the camera.

**O**N TO SOMETHING ELSE. People in business need to understand at least something of the news business. Not always, but very often, the essence of news is not accuracy, clarity, completeness, fairness, or any of those good things. Very often the essence of news is now. In broadcasting or in newspapering, we are captives of the clock, prisoners of the next newscast or the next edition. We deal with a product more ephemeral than hemlines, pet rocks, or CB radios. Many news stories soar up as suddenly as a covey of quail and must be shot on the wing or not at all. The time to answer the question, to make the impression, to leave the image is now.

This means, among other things, that great and small corporations will do themselves a favor by making informed spokesmen available to the press when the press needs them. Let me provide an example from personal experience. I grew up as a newsman in Richmond, Va., where the tobacco companies were the largest employers in town. Now and then a story would come along, say about one of the companies moving part of its Richmond operation to Winston-Salem—a big story locally. But the companies invariably gave the local reporters the royal runaround. It was "call New York," or "I have no authority to discuss this with you," or no response at all. The companies simply stonewalled us, and we resented it. After 35 years, I am still burned up.

**T**HE PRESS needs answers now, and it needs honest answers. If earnings go down or a hydrogen bubble goes up, the question is why? In the hurly-burly of fast-breaking news such as the story at Three Mile Island, it may not be possible to provide fast, definitive answers. In a crisis, some things may be honestly unanswerable, but such stories are the exception.

Ordinarily, the business executive is fully aware of the why of a story. If the story is embarrassing, nothing whatever is gained by lying or dissembling. Sooner or later, if the story is important, some reporter will dig out the truth, which means

two stories instead of one. It also means a loss of credibility, and the business community has no credibility it can afford to lose.

Another observation: The typical business has only three constituencies through which it can develop a favorable image—its customers, its employees, and its stockholders.

**E**VERY SAVVY EXECUTIVE knows about the customers; they can be reached by advertising, by press releases on new products, by customer services, and so on. Many companies neglect the opportunity to communicate effectively with their own workers. There are exceptions, but for the most part, my guess is that employee house organs are little more than Mickey Mouse compilations of marriages, births, anniversaries, and snapshots of the company picnic.

I have complained before, and will keep on complaining, about annual reports and other messages to stockholders. The annual reports that flow across my desk are often beautiful specimens of the graphics designer at work. There are four-color photos, pie charts that glitter like Keno wheels, the last word in typography. But only a handful of top executives seize the opportunity to mobilize a constituency of stockholders, who presumably have some political clout, in support of the company's political positions. I am mystified by this failing and have never heard a satisfactory justification for it.

**A** FEW LAST WORDS in my short course. I understand the disdain that many business leaders feel toward reporters. I sympathize. The situation is much better than it used to be, but far too often the business editor of a newspaper is still a utility reporter who wouldn't know a stock split from a convertible debenture. It used to be a custom of publishers to give a young reporter a title instead of a raise.

"This is the business editor calling," the youngster would say. Big deal. I recall with some embarrassment my own experience as a cub reporter fresh from college courses in Chaucer, the Gothic novel, and French lyric poetry. I was assigned to cover local banks.

When I fell upon my first quarterly statement, I instantly suspected something crooked. The thing looked exceedingly fishy for the assets and liabilities balanced exactly. Amazing! The statement was not amazing, but my ignorance was.

These days, especially on the larger papers, it is far more likely that the business editor will have his master's degree in economics and may have worked a year or two for IBM or Xerox. Such reporters cannot be easily hornswoggled. They need to be treated, if not respectfully, at least warily. They are not to be cozened—heaven forbid—with anything more valuable than a low-calorie lunch, but they can be cultivated, and they can be accurately informed.

In the public eye, business continues to have a kind of bloodshot image, and business deserves something better. The situation demands self-help. I urge executives to go at it. □



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## THE ECONOMY

## Energy Firms Oppose Oil Import Corporation

Domestic energy companies are on the defensive again, this time against a bill aimed at creating a nonprofit government corporation with exclusive authority to import crude oil and petroleum products.

"This is another case of the government trying to intrude into the private sector," says a spokesman for the American Petroleum Institute. "Such a plan would create a tremendous administrative burden."

Supporters claim the proposed corporation would have more clout in dealing with the oil-exporting nations, particularly OPEC; it could better diversify the nation's energy sources and sell refined and crude petroleum to domestic companies more equitably. "The corporation would not be tied to OPEC, which has benefited from an historical bias," according to Rep. John Conyers, Jr. (D-Mich.), who co-sponsored the bill along with Reps. Charles Rose (D-N.C.) and Benjamin Rosenthal (D-N.Y.).

The corporation, whose import authority would be phased in over one year, would also purchase oil for the strategic petroleum reserve.

Rep. Conyers saw his similar proposal defeated in committee in 1977 but believes there is now greater support for the legislation.

## Anti-Inflation Standards Cut Bank Dividends

The administration's anti-inflation guidelines for banks are cutting into dividends.

While big city banks in such money centers as New York are virtually unaffected by the guidelines, the voluntary measures are already putting pressure on smaller banks throughout the country.

David L. Rothgaber of Dean Witter Reynolds, Inc., New York, says he fears bank stocks will suffer.

"Investors will attempt to protect themselves during an inflationary period. If banking dividends don't move up at a rate equal to or exceeding inflation, funds could move elsewhere," he contends.

Several banks have already withdrawn stock offerings because the guidelines do not allow dividend increases large enough to make the securities marketable.

## Wage Guidelines Crumbling Away

PHOTO: JOE CLARK



UAW's Douglas A. Fraser: The Carter wage guidelines have self-destructed.

If the Teamsters contract settlement this spring eroded the administration's wage guidelines, the United Auto Workers negotiations in the fall could wash them away completely.

The Teamsters seven percent settlement got the administration's blessing although the figure did not include retirees' pension costs. Earlier, the Council on Wage and Price Stability had ruled that these costs must be included in the final contract.

Following the Teamsters settlement, UAW president Douglas A. Fraser became the first union leader to break outright with President Carter. Mr. Fraser announced that the guidelines had self-destructed and would play no part in his union's demands when negotiations on a three-year contract for 1.5 million UAW members begin this fall.

He has promised members that pensions will be the number one priority at the bargaining table. He also plans to ask for a cost-of-living increase on top of a general wage increase.

## Don't Count on Saudis to End Energy Crunch

Businesses should be planning now for a major energy crunch in the 1980s when world demand will exceed supply, says the Energy Department.

Although Saudi Arabia has the largest known crude oil reserves in the world, the United States should not count on the Saudis to fill the shortfall as it did when Iran curtailed production last December. A staff report issued recently by the Senate Foreign Relations subcommittee on foreign economic policy concludes that previous estimates of Saudi Arabia's production capabilities and existing oil reserves are unreliable and potential new discoveries are highly uncertain.

Sen. Paul S. Sarbanes (D-Md.), subcommittee chairman, says: "It seems evident that the United States should not base its energy plans on the premise that Saudi Arabia will produce enough oil to supply U.S. needs over the next two decades."

The rate of Saudi oil production is largely a political decision; the country plans to stretch the life of its oil fields as long as possible, the report concludes.

## INTERNATIONAL

## Broader Role Urged for Export Groups

To help foreign trade, the Senate Banking subcommittee on international finance recommends in a report that export trade associations be allowed to offer such services as engineering, construction, insurance, and finance. The Commerce Department should encourage formation of export trade associations, and U.S. exporters should be permitted to form consortia to bid on major foreign projects.

Other recommendations include federal



eral loans to small firms entering the export market, tax incentives to stimulate higher levels of research and development, expansion of export financing, and reduction of U.S. export restrictions.

## New Agency Would Focus on Foreign Aid

An International Development Cooperation Agency has been proposed by President Carter to target U.S. aid programs to less developed nations.

The proposal would not increase federal expenditures or personnel but is intended to make U.S. policies affecting developing nations more coherent.

The Overseas Private Investment Corporation, among other aid programs, would become part of the new agency. But the OPIC board would continue to set its own policy.

Congress has 60 days to reject the proposal, which the White House says is the first major restructuring of U.S. foreign aid programs since 1961.

## SMALL BUSINESS

### Reorganization Critics Want More Advocacy

The Small Business Administration is reorganizing, but not where it counts, critics say.

The agency recently announced that several new positions would be established to "provide a more effective and efficient delivery of service to the nation's small businesses." All new staff positions are at the deputy or associate administrator levels.

However, the real needs, critics say, are more loan officers and administrative help to handle the heavy load of loan applications.

"Reorganization," says one Washington critic of the change, "is the battle cry sounded by an agency when things are going badly. The agency should beef up its advocacy program because, ultimately, it helps more small businesses."

### SBA Eases Bank Loan Procedure

The Small Business Administration is now issuing transferable certificates for SBA loan documents to help banks make more loans to small businesses.

The new program uses a certificate

and centralized paying system, replacing the old transfer of loan documents and issuance of separate checks for each SBA loan.

SBA Administrator A. Vernon Weaver called the program "a dramatic step forward in our search to make more money available to meet the credit needs of small business."

Bradford Trust Company of New York is agent for sales of the government-guaranteed portions of the loans.

## AGRICULTURE

### Carter Plan Covers Distressed Areas

President Carter has sent Congress a proposal to strengthen economic development aid to distressed urban and rural areas.

The bill would provide new private sector jobs for citizens in these areas. "Our nation can no longer afford to rely only on government to provide jobs and income for our disadvantaged citizens and for our distressed communities," Mr. Carter says. He is asking Congress to increase the authorization for the urban development action grant program by \$275 million.

With the proposed legislation and other acts already in force, the federal government will provide more than \$3 billion in direct aid and another \$3 billion in loan guarantees to stimulate private sector jobs.

Mr. Carter has announced a proposed reorganization that would transfer business and industry loan programs from the Farmers Home Administration and Small Business Administration to the Economic Development Administration within the Commerce Department.

### Farmland Prices Continue to Rise

Taking advantage of a 40 percent increase in gross income in 1978, farmers are spending more for farm real estate than ever before.

According to the Agriculture Department, the average price for farmland is now \$560 an acre, up from \$490 an acre a year ago and more than double the \$246 an acre price in 1973.

New Jersey farmers purchased the highest priced farmland at \$2,222 an acre, while New Mexico's farmers spent only about \$11 an acre.



Distressed rural areas: President Carter wants to strengthen development aid.

## CORPORATIONS

### Consumers Can Help Repeal Rate Restraints

Pressure from consumers to get a better deal for their savings at financial institutions may be pivotal to repealing interest rate restraints that keep savings interest rates artificially low.

Under the set rates, banks can pay savers only five percent for their savings while savings and loan associations can pay 5.25 percent.

A proposal by the federal banking agencies would authorize the institutions to pay a lump sum 0.5 percentage point bonus on passbook accounts held for one year, create a new five-year floating rate certificate paying one percentage point less than five-year Treasury securities, lower the required denominations of certificates of deposit, and allow certificates to yield more interest the longer they are held.

### Corporate Acquisition Gaining Momentum

Corporate raiders appear to be stepping up their acquisition decisions under threats of legislation and newly proposed regulations by the Securities and Exchange Commission. The Sen-



## OUTLOOK

ate Judiciary Committee has opened hearings on legislative proposals to govern acquisitions.

A current SEC proposal could stretch out acquisition timetables, forcing corporate raiders to state their intentions sooner than they do now.

One analyst claims that the SEC proposals relating to shareholder list dissemination and timing of tender offerings together amount to "a significant SEC favor to offerers."

### Tax Credit Should Be Permanent Incentive

The administration wants to broaden and simplify the investment tax credit even though its recommendations could mean a loss of revenue to the Treasury.

The ten percent credit should be a permanent incentive for business investment rather than an on-again, off-again tool for stimulating a sluggish economy, the administration believes.

One suggestion would refund the tax credit to companies that lack enough tax liability to take advantage of the entire credit. This would require a downward adjustment of the amount of the credit taken for a piece of property. Also, the same rate would be allowed for all assets regardless of their useful lives. The rate now varies with the useful life of, for example, a piece of machinery.

## GOVERNMENT

### Rail Deregulation Would End Subsidies

For the first time in a hundred years, the federal government proposes to get out of the railroad business.

Instead of continually subsidizing the money-short rail lines, the government wants to deregulate them. President Carter's plan, supported by the Transportation Department, is to ease out of the rail business by 1984. Others within the federal government and the rail industry favor broader deregulation more quickly.

"Unless the present system is changed," says Transportation Secretary Brock Adams, "by 1985 the freight railroads, not including Conrail, will be as much as \$16 billion short of money needed to replace track and rolling stock and repay debt. If this shortage occurs, the only alterna-



The government thinks railroads would run better without subsidies and plans to get out of the business through deregulation by 1984.

tive to collapse of the system would be nationalization of much of the industry."

Conrail, too, seeks financial improvement through regulatory reform. Its current five-year plan suggests that \$500 million of additional federal investment now budgeted could be saved if substantial economic regulatory reform were implemented by 1980.

In 1978, the railroad industry's rate of return on investment was less than one percent. "Efficiency, competitiveness, productivity, innovation, and technological change have all been missing from many rail operations for too long," says Secretary Adams. "We must return to the natural regulation of competition."

### GAO Recommends Tax Policy Coordination

The Energy Department contributes little to the administration's tax policies, nor has it analyzed the effects of major energy tax changes on energy intensive industries, the General Accounting Office reports.

GAO recommends that the Energy Department coordinate its efforts on tax matters with other government agencies.

In addition, GAO says that the department should make available to Congress the results of all analyses of tax issues.

### Contracting Change Spurs Managers

Some federal government managers are looking at ways to streamline their operations now that the Office of Management and Budget has amended its contracting-out policy. The government spends about \$40 billion annually for commercial and industrial activities. Of that, \$10 billion is kept in-house to operate more than 21,000 federal activities.

The amended policy follows President Carter's statement that private industry should get government jobs if it can do them as well for less cost.

Under the new policy, a governmental function will not be contracted out unless there is at least a ten percent savings.

Business people involved in contracting are generally pleased with the change, but they are upset about the ten percent savings rule. "If an equal cost comparison was in place, you would see government become much more efficient than it is now," one contracting expert says.






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# OUTLOOK

## TRENDS

### Make Branch Banking Legal, Says Comptroller

Interstate branch banking, although still illegal, is today a reality, according to John G. Heimann, comptroller of the currency.

Banking subsidiaries and production offices are increasingly crossing state lines, he says, and should be made legal. The question is no longer whether

PHOTO: AMKEIS



Comptroller John Heimann: Interstate branch banking is already a reality.

to allow interstate branching but "how we will balance competing interests to conform law and regulation to the realities of the marketplace."

Mr. Heimann, whose office regulates U.S. national banks, believes in the benefits of free and open competition for banks—something the law has protected them from since the Depression.

"Governmental intervention in the marketplace should be tolerated only where clearly warranted," he says. Legal constraints on geographic bank expansion may be creating "monopolistic effects in certain markets."

### Postal Surcharge on Wrong-Size Mail

Businesses using outsize envelopes have until July 15 to use up current stock and switch to standard sizes.

On that date, the U.S. Postal Service will impose a seven-cent surcharge on first-class mail weighing one ounce or less and third-class mail of

two ounces or less that exceed any of these dimensions: six-and-one-eighth-inches high; 11-and-one-half-inches long, or one-fourth-inch thick.

Also subject to the surcharge are odd-shaped pieces within the weight units that do not conform to the acceptable size ratio: length must be between 1.3 times and 2.5 times the width. At the same time, a regulation on minimum-size will prohibit mailing pieces less than three and one half inches high, five inches long, or seven thousandths of an inch thick.

Exceptions to the minimum-size prohibition will include film mailers, keys, and identification tags. Film cartridge envelopes, if lightweight, will be subject to the surcharge.

## PERSONAL

### Hiring Decline May Be Recession Signal

A major executive search firm says that hiring, while still strong, shows a decline that could be a harbinger of a recession.

"The declining trend is most noticeable at middle levels, executives earning around \$45,000," says Lester B. Korn, president of Korn/Ferry International. "Typically, a slowdown in middle management hiring occurs prior to a recession."

While corporate hiring of senior managers for the first quarter of 1979 is up 35 percent over the first quarter of 1978, it is down from the peak third quarter of 1978.

Mr. Korn says the hiring decline is centered in the Midwest. Hiring was strongest in the East, followed by the West.

The financial services industry, including banks and insurance firms, was the most active in filling executive posts, with 18 percent of total demand. This was followed by the consumer products industry, 15 percent; manufacturing companies, 14 percent; and the electronics industry, 13 percent.

Hiring for both the energy industry and the public sector was down significantly, says Korn/Ferry.

By job type, general managers continue to be the most sought after. There were gains in hiring for marketing positions and manufacturing and engineering executives. Demand for executives in staff functions such as

personnel, public relations, and legal posts declined the most in the first quarter of 1979, from 15 percent of demand to eight percent. Korn/Ferry also considers this a recessionary sign.

### Executives Sleep Less Than the Rest

America's top corporate executives sleep less than ordinary folks. In a study of the presidents and board chairmen of the nation's largest companies, the Better Sleep Council of New York City found that 46 percent of the executives reported an average sleeping time of 6.5 hours. Thirty-six percent reported sleeping seven or more hours, 15 percent sleep five to six hours, and two percent sleep four to five hours.

The average person, on the other hand, sleeps 7.5 hours.

Top executives also reported little difficulty in falling asleep, with 46 percent reporting no difficulty and another 47 percent reporting only occasional problems.

When they can't get to sleep, what do executives do? Forty-four percent say reading is the best remedy. Other solutions include: Sleeping pills, 16 percent; aspirin, 15 percent; a glass of warm milk, 13 percent; sex, ten percent; meditation, nine percent; alcoholic beverage, eight percent; exercise, five percent; and a warm bath, three percent.

### Carryover Repeal Could Beat Veto

There are enough votes in Congress to repeal the carryover basis rules for inherited property even if the President vetoes the measure, the chairman of the Senate Finance Committee predicts.

Sen. Russell B. Long (D-La.) says he will support the repeal, which will probably be attached to a related but noncontroversial measure.

Prior to the adoption of carryover basis measures in the 1976 Tax Reform Act, inherited property was valued at the fair market price on the date of death. When the heir sold the property, capital gains taxes were paid only on those gains made since the time of death.

Under carryover basis, predeath gains would no longer be wiped out for tax purposes.



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One problem at The Geysers, for instance, was the rolling terrain and steep, narrow canyons, among which conventional high-frequency radio signals could get diffused and lost. Motorola solved that one with ingenious simplicity: a low-band two-way radio system that, as one engineer put it, "gets into the nooks and crannies."

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# THE EARTH, THE SEA AND THE SUN.

systems and subsystems, among which are pagers that tell a man he's wanted on the phone; closed-circuit video monitoring systems; and alarm and control systems that not only tell when something is going wrong, but also when everything is working right.

In the North Sea, a Motorola microwave system will provide a data and voice-communication link that will help one person control six unmanned oil-production platforms. He'll be able to check pressures and flow rates, regulate meters, pumps and motors, all by touching a few buttons.

Some of the Motorola equipment on the Alaska Pipeline is so sophisticated that a hard-hat worker in the field can talk directly to an executive in an office a thousand miles away.

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Motorola equipment is in use at an oil mine, an extraordinary strip-mining process for extracting petroleum from tar sands.

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Motorola's preeminence in energy-industry communications is as much a matter of people as of technology. We made an early and total commitment to solving energy-industry communications problems, not merely

as suppliers but as participants.

Microelectronics is at the heart of the matter, as it is in many of the things we do today. But if there are similarities among communications devices, there are none at all among the communications systems that the energy industries need in all their activities.

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
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PHOTO: FRED WARD—BLACK STAR

The Marine Corps Band and the Salute to the Colors always provide a traditionally spine-tingling start to the annual meeting of the Chamber of Commerce of the United States.



Jay VanAndel, National Chamber chairman and head of Amway Corp. in Ada, Mich., believes 1979 will be a make-or-break year in fighting inflation.



Chamber President Richard L. Lesh declared that most inflation was due to governmental policies of one kind or another.



PHOTO: GERALD R. FORD—BLACK STAR

Former President Ford told annual meeting delegates that the federal government "had better do better."



Sen. Russell Long and Rep. Al Ullman agreed that taxes should be cut for everybody, with revenue losses made up by a growing economy.





## CONSTRUCTIVE ACTION FOR A PROGRESSIVE FUTURE

# No Problem Too Great, No Crisis Too Much

**F**OR THE 67TH YEAR, in the sunburst days of April, business people journeyed to Washington, D.C. They arrived by auto, by commercial jet, by private aircraft, and by train, massing at the nation's capital, worried about double-digit inflation, burdensome taxes, and a host of other national problems.

In years past, they came to the annual meeting of the Chamber of Commerce of the United States rather quietly, almost as if they were entering an enemy camp. But this year, reflecting the changing American mood, they arrived with a new confidence about the role of business in influencing the nation's political affairs.

On a bright Monday morning, delegates and spouses streamed into historic Constitution Hall not far from the White House to begin a three-day discussion of key issues and to develop constructive action for a progressive future.

### Back on course

Richard L. Leshner, president of the National Chamber, challenged business people to "chart this nation's destiny during the 1980s and inspire the world."

"It is critical that we get back on the course of pursuing economic growth—without inflation—through private enterprise."

"Recent history," he added, "has demonstrated that this goal can be

achieved only if our society respects individual freedom and initiative, and if we gear our activities toward work, thrift, and reward."

Dr. Leshner said business should not listen to those in government who propose to fight inflation with slower growth. Instead, business should look to early history when Americans were free to concentrate on the production of useful goods and services.

"There was nothing complicated or mysterious about it. Prosperity came from production. Key factors were an honest day's work, an honest day's pay, and careful attention to savings."

But financing government programs has turned that situation around, Dr. Leshner said. Last year, the United States had the lowest rate of productivity among western industrial nations, the second lowest rate of investment, the fewest patents issued in any year since 1964, and rapidly rising inflation.

He urged the business community to provide legislative solutions to the nation's problems at every level.

"Our highest priority at the national level must be to generate legislation that will encourage much more vigorous growth in the private economy." He said the business community proved during the 95th Congress that it was capable of providing the leadership necessary to achieve legislative solutions.

"No problem," said Dr. Leshner, "no matter how great or seemingly insolu-



Our economic welfare and national security depend on the free enterprise system, said Sen. Sam Nunn (D.-Ga.).

ble, and that includes the energy crisis and the twin evils of inflation and recession, can stand in the way of a free people competing to find solutions and brave new horizons."

Dr. Leshner's speech followed a televised message from Shearon Harris, chairman of the board of directors of the National Chamber. Mr. Harris, who is recovering at home from coronary bypass surgery, expressed his regrets at having to miss the annual meeting.

Sen. Sam Nunn (D.-Ga.), the guest speaker, readily agreed that America's free enterprise system is a major pillar of the nation's greatness. "Our economic welfare and our national security depend on the preservation and health of the free enterprise system."



Sen. Nunn, who serves on the Senate Armed Services Committee, posed the question being asked by more and more Americans: How will our national security be affected by the SALT II treaty?

"We must first recognize that since World War II, our margin for error in the military realm has diminished substantially," he said.

#### Industrial complex

"In 1945, we had a monopoly of atomic weapons. We controlled the oceans. Our industrial complex was the largest in the world and the only one that had not been destroyed or exhausted. Even if we miscalculated, no one else could do much about it."

Today, the margin for error has narrowed, the senator said. The Soviet Union has not only erased long-standing NATO superiority but also is developing military forces better than NATO's.

On the positive side, he said, the United States still maintains advantages over the Soviet Union in naval power and certain technologies. "We have more capable ships and our tactical Air Force has superior aircraft design and pilots," he said.

"It is readily apparent, however, that present trends are adverse. If they continue, our remaining advantages will disappear, and the security of the United States and its allies will be jeopardized in the 1980s. In little more than 15 years, the United States has moved from overall military superiority to a position that can perhaps best be characterized as clinging parity."

#### More defense spending

To prevent further gains by the Soviets, Sen. Nunn said, the United States must resign itself to greater defense spending. To offset Soviet growth, the United States must consider increasing strategic weapons, modernizing tactical nuclear forces in Europe, increasing the present five-year ship-building program, and finding an alternative to the all-volunteer military force.

"These national defense tasks should be pursued with or without a SALT II treaty or any other arms control agreement," he said. "These tasks are essential to our national security, and no foreseeable arms control agreement, including SALT, can provide an adequate substitute for them." □

## Heaven Help Small Business



AMEX's Arthur Levitt said inflation is smothering small business.

Excessive regulation's impact on small business is not a laughing matter, but Arthur Levitt, Jr., board chairman of the American Stock Exchange, managed to bring a smile to the faces of those attending the small business breakfast at the National Chamber's annual meeting.

"It reminds me of an old story," he began, "about a preacher who was strolling in the woods one day and met a fierce, hungry grizzly bear."

"Taking quick refuge in the high branches of a tree nearby, just out of reach of the bear's snapping fangs, the preacher prayed ... 'O Lord, if you can't help me, for heaven's sake, don't help that bear.'"

When the laughter died down, he delivered the punch line.

"We small business people can echo that prayer to our regulators: If you can't help us grow, for heaven's sake, don't tear us apart."

"It's bad enough for the country to fail to give small business the tax incentives it needs to grow, but it's downright painful for it to impose disincentives in the form of excessive government regulation."

Mr. Levitt, who also serves as chairman of the White House Commission on Small Business, says the very existence of small business is being threatened by inflation, regulation, and taxation.

"The single most important problem small business points to ... is the one that affects us all—inflation."

"Most people know inflation erodes fixed incomes. Far fewer realize that it exhausts productivity," he said. "Inflation breeds caution, not courage. Risk is punished, defense rewarded."

Of all industrialized countries in the world, he said, the United States has the lowest proportion of gross national product invested in capital equipment, the lowest rate of savings and investment in production, and the highest percentage of obsolete production facilities.

"And what is perhaps most crucial—we have the lowest rate of productivity increase among major industrialized countries," he added.

The Amex chairman, who calls Amex "the People's Exchange" because many relatively small companies are traded on it, praised what Congress has done thus far to cut taxes. But, he said, "we have simply got to stop apologizing for profits. They create, finance, and defend our economy. We have to help the public understand that to conquer inflation in the long run, we have to decriminalize profits and create specific tax incentives to encourage savings and investment."

Mr. Levitt said one of the impediments endured by small business has been a lack of coordination between those three forces that have the most vital impact on its destiny: Congress, the administration, and the private sector.

"The Chamber of Commerce of the United States can act as a broker between these three forces, seeing to it that the unique opportunity presented by the 1980 White House Conference on Small Business is not undermined or denuded but rather serves as a bridge between the private sector, Congress, and the administration," Mr. Levitt said.

"We must speak with a common voice," he urged, "because together there is nothing small about America's small business."





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□ According to a Federal government study of industrial shippers, 84.7 percent indicated there were adequate numbers of carriers to maintain good service. In fact,

12.1 percent felt there were too many carriers.

□ Shippers have many choices. For example, more than 50 motor carriers haul general freight into and out of Richmond, Virginia. For



Los Angeles, the number exceeds 80. Seventy motor carriers run between New York and Boston; 42 between Chicago and Kansas City; 23 between Dallas and St. Louis; 32 between Winston-Salem and Baltimore; and 34 between Akron, Ohio, and Philadelphia. These cities are also served by hundreds of specialized motor carriers hauling other types of freight.

□ Competitive rate actions are protected by regulation. In 1977, in one of 61 motor carrier rate bureaus—the Middle Atlantic—88 percent of all rate changes were reductions. Thirty-seven percent of the rate changes were independent filings by carriers, all of which were reductions.

The motor carrier industry is competitive, and regulation ensures equal, nondiscriminatory service to all.



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# Government by the People? Or by the Professionals?

**S**HOULD politics be left to the professionals? For the time being, yes, former President Gerald R. Ford told a general session of the National Chamber's annual meeting.

He declined to support a proposed constitutional convention or amendments aimed at mandating a balanced federal budget because "we have the tools in Congress, the administration, and the Federal Reserve Board" to do the job.

"As long as Congress shows restraint in federal spending, I give it the benefit of the doubt," he said, adding that he would lobby for constitutional changes if Congress reversed its conservative fiscal stance.

The growing grass-roots phenomenon, as reflected in voter recalls, initiatives, and referendums, was the subject of a panel discussion preceding Mr. Ford's talk.

## Large electorate

The moderator was syndicated columnist George Will. Panelists included Paul Gann, president and chairman of the board of People's Advocate, Inc., Carmichael, Calif.; Richard H. Headlee, president and chief executive officer of Alexander Hamilton Insurance Co., Farmington Hills, Mich.; and Melvin Laird, senior counsel for national and international affairs, Reader's Digest Association, Washington, D. C.

"When you have a large electorate deciding issues of fundamental public policy, is it possible the public does not fully understand what it is doing?" asked Mr. Will.

"The only safe depository of power is with the people," responded Mr. Headlee, who has founded several taxpayer organizations. A recent poll of 1,045 taxpayers labeled excessive government spending as the root of inflation, he added. "The people of our country know what's going on; the people who are running our government don't," Mr. Headlee said.

Former Defense Secretary Laird agreed with President Ford. "Grass-roots action represents no quick fix for governmental problems," he said.

"The decisions of government are



The bottom line is education, said former President Ford.

tough, and it takes an informed citizenry to know what is happening. Moreover," he said, "the job of deciding what kinds of laws are needed is still best left to elected representatives."

Mr. Gann, who drafted Proposition 13 in California last year, was skeptical. "The reason so many people got involved to shape California tax law," he says, "is that elected representatives were too busy to get around to doing the job they were elected to do."

Mr. Headlee agreed with Mr. Gann's philosophy. The grass-roots participation in the political process represents "a very healthy shaping-up process," he said. "Anyone who doesn't believe that representative government is not out of control is suffering from terminal ignorance."

## Fed up with high cost

Mr. Ford made it clear that he thinks the American people are fed up with the high cost of big government. "There is a rising tide of resentment about the tax burden at all levels," he said, as well as "the way the government spends taxpayer money, the recent horrendous increases in the cost of living, energy shortages, the trend in our military capability around the

world, and the difficulties our nation faces in foreign policy.

"The feeling, however, is deeper and broader than specific issues," he added. "The feeling of frustration transcends one's economic status. The welfare recipient's anger at being shunted aside by bureaucracy is equaled by the fury of the businessman confronted by a maze of contradictory and arbitrary rulings of ever-expanding regulatory agencies."

## Red flag of warning

He was optimistic about solutions. "I believe the government can do the job effectively without a major overhaul of our Constitution," he said. "However, a red flag of warning is on the horizon, and we'd better do better."

The panel discussion was preceded by a slide show tracing historical citizen participation in public policy-making, beginning with the Boston Tea Party more than 200 years ago. Today, grass-roots organizations are growing rapidly. They range from the National Tax Limitation Committee, which wants to pass an amendment to the Constitution to limit spending, to People's Advocate, which, among other interests, supported Proposition 13.

One of the newer additions is Citizen's Choice, the nationwide grass-roots lobby affiliated with the National Chamber. It has about 30,000 members and is gaining more than 1,000 new members a month.

## Expanding movement

The grass-roots movement in the United States is likely to continue and probably even expand. The direction which the movement takes, however, will depend upon the information that is made available to the voting public.

"The bottom line is education," President Ford said. "What is required for better quality citizen involvement is relevant and reliable information that lays out options on major issues of public policy."

Specifically, in the last Congress, "major educational efforts at the right time resulted in the defeat of four pieces of bad legislation—common site



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picketing, so-called labor reform, consumer protection agency authorization, and cargo preference."

Mr. Ford added: "The coordination of this information by chambers of commerce and similar organizations is absolutely vital. When this is done properly, good legislation will be passed, and poor legislation will be defeated."

"While the public can initiate all kinds of processes to make their views known to their elected representatives, are voters aware of the possible negative consequences of tax reductions?" Mr. Will asked.

### Municipal services

According to Mr. Headlee, Michigan voters recently turned down their own Proposition 13 because they were unwilling to cut municipal services.

But, recognizing that their state government had more than doubled in the past ten years, voters chose an alternative that limited state government spending. "They sent a message to their state capital," said Mr. Headlee. "Set spending priorities for the money you have."

Excessive government spending and its burden on the American taxpayer was the recurring theme throughout the panel exchange. According to Mr. Will, the prevailing attitude among the voters now appears to be: "Don't do anything for me; I can't afford it." □

PHOTO: FRED WARD—BLACK STAR



Paul Gann, coauthor of California's landmark Proposition 13, spoke about individuals changing public policy.

## A Panoply of Prescriptions for Inflationary Ills

PHOTO: NAGGI CASTELLUX



Debating the causes of inflation were (left to right) Stuart Eizenstat, Jerry Wurf, moderator Karna Small, Richard L. Leshner, and Sen. Richard Lugar.

The causes and cures of inflation produced a rousing and, at times, acerbic debate at the National Chamber's annual meeting.

Taking part were Richard L. Leshner, National Chamber president; Sen. Richard G. Lugar (R-Ind.); Stuart E. Eizenstat, President Carter's chief assistant for domestic affairs; and Jerry Wurf, president of the American Federation of State, County, and Municipal Employees.

Dr. Leshner and Sen. Lugar both supported private enterprise solutions to inflation, particularly increased capital investment and productivity.

Mr. Eizenstat said the Carter administration had already curbed spending and regulation significantly. Labor union demands had been moderate, and the voluntary wage-price guidelines represented a reasoned approach to inflation, he said.

Clashing with Dr. Leshner and Sen. Lugar on one side, and Mr. Eizenstat on the other, Mr. Wurf accused business of reaping outrageous profits and declared that "the wage and price guidelines are not working."

The union leader called for mandatory government controls on "all forms of economic activity—wages, prices, interest, and profits."

Dr. Leshner declared: "I am tired of hearing that government has done its job, and labor has done its job, and

business is price-gouging. That's nonsense. Fully 60 percent of current inflation is due to governmental policies of one kind or another," the National Chamber president said.

He also pointed out that, despite reports of massive increases in profits, industry return on equity was only 7.5 percent, "a very modest rate of return when you can get ten percent on Treasury bills."

Dr. Leshner suggested that government actions such as repealing the Davis-Bacon Act and deferring minimum-wage increases would have "a quick and lasting impact on holding down the rate of inflation."

That comment provoked Mr. Wurf, who said business should realize it was fortunate in having an organized labor movement committed to the capitalistic system and should not nibble away at the livelihood "of the people who purchase the goods, the homes, and the services that you all want to sell."

Sen. Lugar said that a profitable business community was in the best interests of all American workers, because those profits not only financed expansion and new jobs but also supported the productivity growth that is essential in curbing inflation.

Dr. Leshner said that "the only way to increase our standard of living without inflation is to increase productivity in all sectors of our economy."



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## INTERNATIONAL TRADE

# All the World's a Marketplace for American Industry

INTERNATIONAL TRADE is going to test the vitality of American industry and the foresight of America's government," Commerce Secretary Juanita M. Kreps told the National Chamber's session on "Global Outlook for the '80s: Trends for International Business."

Zbigniew Brzezinski, presidential assistant for national security affairs, said U.S. foreign policy is shaping a global strategy that will enhance the American military and economic positions for years to come.

And Donald M. Kendall, chairman and chief executive officer of PepsiCo., Inc., warned that "too many people think we are still operating in the Marshall Plan era."

"Those days are over," said the chairman of the National Chamber's international policy committee. Business must

prepare for the 1980s with a matured view of economic reality that takes into account such factors as human rights and immigration, he added.

Foreign policy sets the scene for international business, and Dr. Brzezinski cited as tangible accomplishments of the Carter administration the Panama Canal treaties, the Egypt-Israel peace, and normal relations with China.

### Far more dangerous

To continue the momentum, he said, the United States must sign a SALT II agreement with the Soviet Union.

"SALT will not end U.S.-Soviet competition," he asserted. "It won't end arms stress. But in the absence of a SALT agreement, we will be living in a far more dangerous and insidious world."

He called the Egypt-Israel treaty a catalyst that would, he hoped, lead to a secure and moderate course for all nations in the Middle East. He said the United States must work not only with Middle East nations but also with its major military and trading allies in Europe and Japan to improve chances for lasting peace in the Middle East.

Secretary Kreps said the United States had no alternative but to move toward greater integration with the world economy. Congress must approve a treaty that emerges from the multilateral trade negotiations, she said.

"Rejection is out of the question. We can no longer consider our economic future as independent from the rest of the world. We are now more dependent than ever on export markets to



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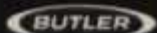
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stimulate the growth of our industries and on foreign sources to supply raw materials."

For economic survival, Secretary Kreps emphasized, the United States must trade more with the communist countries of Eastern Europe and Asia.

"While this will mean new markets, U.S. firms will be playing catchup in most planned economy markets," she explained. "Of the \$60 billion in foreign manufactured goods purchased last year in Eastern Europe, for example, less than two percent came from the United States. Western Europe and Japan have their eyes on these markets."

#### Prime suppliers

Additionally, she said, the decade ahead will see changes in North-South as well as East-West trade. Our future export sales will be heavily influenced by the market access we offer to developing countries, she noted.

Many of these are well on their way to becoming prime suppliers of such products as basic machine tools, small construction equipment, motorcycles, automobiles, industrial components, and standardized electronic products.

"Increasingly, these countries will compete with our industries at home, in the markets of other industrial nations, and indeed, in the markets of their developing neighbors," she said.

The developing countries' increasing exports of moderate technology products will push the industrial nations—especially Japan—into greater production of capital goods and high technology products.

#### Overall deficit

"This will challenge the U.S. export position more directly," the Secretary warned. "Capital goods are the mainstay of U.S. trade. There was a \$27 billion surplus last year, despite our overall deficit."

The current amount of direct foreign investment in the United States will continue well into the 1980s, Mrs. Kreps said.

"The basic attractions luring foreigners to build plants or acquire com-



White House presidential assistant Zbigniew Brzezinski extolled SALT II.

panies here are not about to disappear. Because foreign investment, which now amounts to no more than two to three percent of American industry, injects capital and technology into our economy, the growth of such investment has been generally welcomed."

#### Foreign-owned plants

However, this foreign investment is likely to lead to increased imports of component products and reduced imports of finished products.

"The location of foreign-owned assembly plants will pose problems for some American producers," Secretary Kreps noted.

"It will become harder to appeal for relief from imports when relief may jeopardize jobs held by other Americans who happen to be working in foreign-owned plants. Domestic producers of components and semi-finished goods will need to focus more and more on increasing innovation and productivity."

What role will government play as new U.S. trade policies unfold in the 1980s?

"The notion that governments in collaboration can parcel out trade among supplying nations and turn the import-export faucets a little more open or closed to suit domestic interests seems to be gaining popularity," she ex-



Commerce Secretary Juanita Kreps says world trade is key to economic survival.

plained. "This is surely not the way for us in the 1980s, however."

Some proposals would have governments replace market forces in international trade; other alternatives amount to government-sanctioned market-sharing systems.

"Under conditions of tough competition, it is understandable that such proposals emerge," Secretary Kreps said. "But if the private sector has one interest above all, it is the preservation of market forces."

"We are on the verge of a more open and fair, if very demanding, international trading period. Let us not substitute bureaucratic planning for all the trade barriers that we are now putting behind us."

#### Broader universe

The greatest challenge to U.S. industry in the 1980s will come from outside our borders, she said.

"We have no choice but to accept this broader universe of trade. U.S. business can compete with any in the world. But demanding challenges—and great rewards—lie ahead. Our government has the tools at its disposal to work with business to meet these challenges."

"We do not need a larger toolbox. We do need a clearer sense of purpose." □





## Issues on the Menu

### Strengthening Politics

Sen. Paul Laxalt (R.-Nev.) says business people and Republicans "are poor salesmen of their philosophy." Republicans spend too much time fighting negatives, he says, while Democrats and unions get their message delivered clearly.

Sen. Laxalt spoke to more than 200 people at a lunch session on the "1980 Elections: Strengthening Business Political Action." The format was the same as the ABC network television show, *Issues and Answers*, complete with ABC's moderator, Bob Clark.

Rep. James C. Corman (D.-Calif.) suggested that business people should not assume they can support only Republicans. Democrats, too, favor the free enterprise system.

He labeled single issue politics dangerous and added that much of the new political right depends on single issues such as integration, abortion, and gun control. He also predicted that as the Republican Party elects fewer people, its focus on issues will become narrower.

Sen. Laxalt said public financing of congressional campaigns was merely an incumbent's protection bill. "When I look at my expenses, I should really support this bill," he said, "but it's unfair to challengers."

Public financing also invades the political process. "If you want to take an area of activity and mess it up," he said, "move it to Washington."

Sen. Laxalt added that he, like others, did not like to solicit funds, but it is "good for a candidate to hustle some money, as long as it's not unreasonable."

The first-term conservative senator said the emergence in the past few years of business political action committees was a major change in politics. Moderator Clark asked Sen. Laxalt why businessmen contribute to PACs. "Aren't they trying to buy influence?"

"I hope so," Sen. Laxalt replied. He added that the amount of money from individual PACs is limited by law, and is not enough to corrupt anyone on Capitol Hill.

### Rating Business Ethics

Business ethics are at an all-time high," Joseph T. Gorman, vice president and general counsel of TRW, Inc., of Cleveland, Ohio, told a lunch session on "Corporate Governance: The Federal Threat to Corporate Management."

Sen. Howard M. Metzenbaum (D.-Ohio) had a somewhat different view. "Shareholders were appalled to learn that about a third of the nation's 500 largest corporations were involved in illegal corporate payments, outright bribery, and political payoffs."

Sen. Metzenbaum said shareholders were not able to vote against such illegal payments and instead withdrew from the investment marketplace.

To restore investor confidence, the senator is preparing a bill setting federal standards for corporate behavior. For example, the bill would require that a majority of board members come from outside a company and that the audit, nominating, and compensation committees be independent of a firm's officers.

Ralph K. Winter, a law professor at Yale University, characterized Sen. Metzenbaum's proposal as detrimental to efficient business operations.

"The impetus for these proposals comes not because the investment community feels there is not enough federal law but because those who want to contract the private sector in favor of the public sector can use the corporate governance issue."

On the question of whether American business ethics have really declined at all, Mr. Gorman pointed out that confidence levels of all of our institutions have declined. He added that business had been wrongly blamed for many perceived social wrongs because "we haven't been standing up and saying we're not to blame."

### Thinking About VAT

The chairmen of Congress's tax-writing committees see the value-added tax as a key to sweeping fiscal changes that would include lower social security and income taxes, major new investment incentives, and a balanced budget.

Rep. Al Ullman (D.-Oregon), chairman of the House Ways and Means Committee, and Sen. Russell Long (D.-La.), chairman of the Senate Finance Committee, gave their views to an

overflow crowd at a lunch discussion on "Tax Policy: Help or Hindrance to Investment."

Both committee chairmen agreed that declining productivity and lagging investment threatened national economic health, but tax relief targeted to investors was attacked traditionally as a boon to the wealthy.

"We should cut taxes for everybody at the same time," Sen. Long suggested. Lost revenues, he said, could be made up through an expanded economy and a VAT.

Rep. Ullman said that a VAT "could be one of the most efficient tax devices for encouraging capital formation."

### Controlling the Regulators

Congress is ready to deal with the problem of government regulation of business, Rep. Elliott H. Levitas (D.-Ga.) told a lunch session on "Getting Government off Our Backs: Regulatory Reform."

He added: "Today, Congress is saying the buck stops here. We do need to make changes, and changes are going to be made."

The young Georgia congressman, who has clashed with President Carter over who should actually keep tabs on the regulators, said it was the role of Congress. If Congress does not do its job, he said, "the people in this room have the option to change that every two years."

While neither total government regulation nor laissez faire is right for business or society, he said, "we have had overregulation. The American people are far ahead of Congress in saying it's time to act."

Jeffrey H. Joseph, the National Chamber's director of government and regulatory affairs, pointed out that there has been a revolution in regulation in the past ten years which has spawned numerous agencies and seemingly countless regulations.

Thus far, the consumer has won the biggest campaigns to do away with regulations, he said. Mr. Joseph pointed to the quick governmental response when consumers complained about the mandatory ignition interlock system and the saccharin ban.

Barbara Hackman Franklin, former commissioner of the Consumer Product Safety Commission, told the audience that there is currently no incentive for bureaucrats to lighten the load of regulation. □



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## Candid Camaraderie With the Women of Washington

PHOTO: MAGG CASTELLOE



Several congressional wives including Cathy Long met with more than 100 women at the National Chamber's annual meeting to talk about life on the Potomac.

**W**OMEN of Washington. The term is usually used to describe the high-powered wives of household names in government.

At the National Chamber's annual meeting, however, women of Washington meant camaraderie and fun.

In a small room down the hall from the exhibits, the energy workshop, and the global outlook session at the Washington Hilton, several women of Washington met with women from all over the country to share stories, jokes, and candid experiences about living in the nation's capital.

"Despite what you hear," said Ellen

Proxmire, wife of Sen. William Proxmire, senior Democrat from Wisconsin, "we here in Washington do not live in homes that look like Mt. Vernon. We carpool, grocery shop, and raise a family just like you.

"Life in Washington is sometimes glamorous, sometimes pretty, and often just routine."

The room was packed with women from St. Paul, Minn., Saginaw, Mich., New Orleans, and elsewhere.

Cathy Long, wife of Louisiana Representative Gillis W. Long, told the group she loves to talk about herself.

"I have found that politics makes for

estranged bedfellows," she said, giggling at her own joke. "When I was approached to do a speech for the first time, I accepted readily, although I didn't know much about the topic, the Equal Rights Amendment.

"So I did a lot of reading and familiarized myself with the issues. I decided to entitle the speech, 'From Adam's Rib to Women's Lib,' and thought just for fun I'd look up Eve in the encyclopedia to see what it had to say.

"Ironically enough, it said, 'see Adam.'" The punch line broke up the roomful of 110 women.

### Voting deadline

Rita "Peatsy" Hollings, a former teacher and the wife of Sen. Ernest F. Hollings (D-S.C.), spends much of her time working with her husband on constituents' problems. She says people don't ask her about issues like SALT II and energy; they want to know whether she's seen Elizabeth Taylor Warner.

What about disagreements on issues of the day?

Mrs. Hollings said she and the senator disagreed on extending the voting deadline on ERA... she was for, and he, representing South Carolina where the amendment has been rejected several times, voted against. She won. He didn't protest; she didn't rub it in.

On the other hand, Claire Schweiker, wife of Sen. Richard S. Schweiker (R-Pa.), said the biggest disagreement they had was over the change to daylight savings time.

"That hour is really important to my day," she added.

Mixed in with funny stories about White House parties and the importance of equal rights were issues very important to the audience: The cost of education, food, and housing; breast cancer and what to do about it; and how to raise children and manage a home, a marriage, and a career all at the same time.

"All of the women you see here today have contributed to their husbands' careers, raised a family, and found time for their own lives," said Mrs. Proxmire. □

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# What to Do, Where to Turn

Special sessions grapple with energy, exporting, wage-price guidelines, and other persistent problems

**W**HAT DO energy, wage-price guidelines, labor-management, exports, economic forecasts, and trade association law have in common? While volumes have been written about them and countless words spoken, the common denominator at the National Chamber's annual meeting was that each became the focus of a special town-hall-type session designed to dissect specific issues. At the six sessions, panels of experts debated the problems and fielded questions from the audiences.

## The Energy Question

At the energy session, Energy Secretary James R. Schlesinger told a sitting-in-the-aisles crowd that coal and nuclear power would have to help end the nation's energy difficulties.

"We have no real alternative for maintaining energy production than to make effective use of coal and nuclear power," he said.

"We do not have the luxury of ignoring nuclear power at this time. Right now, it is saving us about 1.5 million barrels of oil a day. As our oil supplies diminish, we must use other energy resources," the Secretary said.

He predicted that in the next 15 to 20 years, "we are going to be primarily de-

pendent on the technologies of today.

Secretary Schlesinger called for a hardheaded approach to energy. "Energy policy is an area in which hope and imagination and escapism play a very large role. We have made some progress, not through the clarion call of the moral equivalent of war but through the fruitful moral equivalent of the Chinese water torture."

Why does the United States often act as if it were in an energy dream world of unlimited supplies, asked moderator Carl Grant, National Chamber vice president for communications.

"The American people have a different attitude than other industrial nations," the Secretary said. "We are accustomed to boundless resources, to exploiting a continent. The American people have had no great experience with finite limitations."

"The general impression is that the production of oil is something like turning the spigot of a garden hose. If nothing comes out, there is a conspiracy afoot. That kind of view is what we have to overcome," Secretary Schlesinger said.

In the real world of day-to-day conservation, he praised U.S. industry. "The business community has done the best conservation job simply because business keeps a very sharp pencil."

## An Expanding Export Role for Small and Medium-Sized Firms

At the exports session, Irving R. Levine, economic correspondent for NBC, said: "There are vast markets to be explored, and there are facilities and expertise available to help. But it's important to make a commitment and not just stick your toe in the waters."

John D. Bierman, senior vice president, Export-Import Bank, Washington, D.C., called small business exports vital to reversing the trade deficit. Seventy-five percent of U.S. exports come from 250 firms, he said. Last year, the Ex-Im Bank helped 974

firms exporting \$3 billion worth of goods. This year, it hopes to do more.

Mr. Bierman pointed out that the March trade deficit was the lowest in two years, at \$821 million. But "we are not major exporters," he said, "primarily because the domestic market has until now taken most of the demand."

"The United States exports seven percent of its gross national product: This compares with Japan, 12 percent; United Kingdom, 21 percent; and West Germany, 23 percent."

While all panelists agreed that prudence is the watchword for small and medium-sized businesses, they were enthusiastic about novices getting into exporting.

## Labor, Management, and the 96th Congress

At the labor-management session, Rep. John M. Ashbrook (R-Ohio) said he was hard pressed to see any significant labor legislation during the current session of Congress. He predicted that "this will be an oversight Congress, which is a polite euphemism for not much legislation."

One certain issue will be repeal of the Davis-Bacon Act, which requires that workers on federally subsidized construction projects be paid the local prevailing wage.

Rep. Ashbrook agreed that while outright repeal of the Davis-Bacon Act seemed remote, it might be killed program by program through legislative riders as each authorization or appropriations bill moves through Congress.

Rep. Ashbrook called on business people to have more intestinal fortitude in opposing incumbent congressmen who usually vote against business interests.

Victor Kamber, representing the AFL-CIO on the panel, lamented that "they'll nickel and dime Davis-Bacon to death on appropriations bills and other committee action."

Mr. Kamber predicted that "each side will go all out on Davis-Bacon, and it will probably be a standoff. Both management and labor will be losers in an all-out fight because we'll be in-

PHOTO: DENNIS BRACK—BLACK STAR

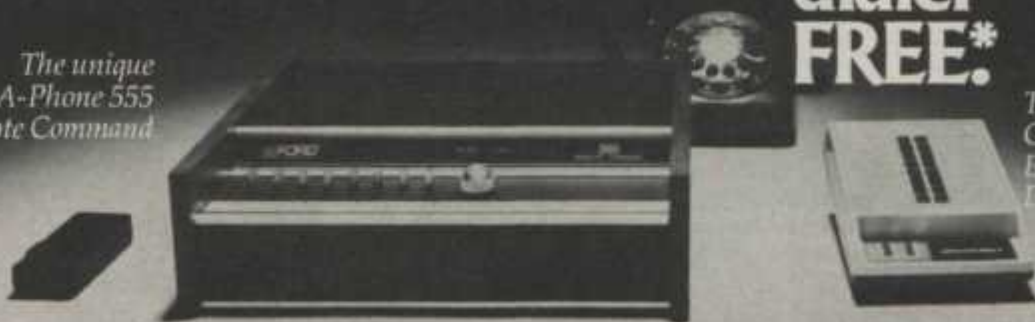


We must rely on coal and nuclear power, said Energy Secretary Schlesinger.



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Robert T. Thompson, right, chairman of the Chamber's labor committee, presided at the labor session with Rep. William Ford (D.-Mich.), left, and Victor Kamber.

involved in confrontation politics again."

He noted that, overall, labor and management have little trouble reaching agreement on most matters, but that a few emotional issues such as Davis-Bacon can create great antagonisms.

## Federal Administration of Wages and Prices

At the wage-price session, Barry P. Bosworth, director of the Council on Wage and Price Stability, split with President Carter over the recent Teamsters settlement.

"I would not have said the Teamsters agreement should be applauded," he told the audience. "They simply got within the standard by taking advantage of every loophole in the guidelines."

Former Budget Director James T. Lynn said that while the "rules were imaginatively applied," the contract was within the guidelines.

Dr. Bosworth said he favored more one or two-year contracts because the standard three-year contract was likely to be based on inflationary expectations.

"As the gap between inflation and the guidelines figure widens, it gets harder for any worker to say he will accept less," contended Sen. Donald W. Riegle, Jr. (D.-Mich.), chairman of the Senate Banking subcommittee on economic stabilization.

Inflation for the first three months of the year was running at a 13 percent annual rate while wages are held to seven percent.

"It's untenable to subscribe to a ceil-

ing that has nothing to do with the rate of inflation," he said in response to a question from the audience.

"I don't like having to say to my workers, 'inflation is at 13 percent, but you have to take seven percent,'" said Charles H. Smith, Jr., chairman of the board of SIFCO Industries in Cleveland, Ohio. "I think that's immoral."

Both Dr. Bosworth and Sen. Riegle agreed that neither the administration nor Congress would try to bring inflation under control with mandatory controls. The price rises that would occur while the legislation made its way through Congress would spur more inflation than the program could ever control, Sen. Riegle said.

## What Chambers Must Know About the Law

Legal precepts affecting chambers of commerce were spelled out by a five-member panel of attorneys and chamber executives at a legal session.

"A member of our local chamber was recently indicted and convicted of consumer fraud," said one individual. "Can our board of directors expel his business from our organization?"

Technically, no, according to panelist Arthur R. Herold, a Washington attorney who specializes in trade associations law. In the eyes of the Federal Trade Commission, which most likely imposed the penalty on the guilty party, any additional punitive action would be unjustified.

Another person asked if chambers of commerce can legally endorse candidates for public office.

"It varies from state to state, but

federal statutes stipulate that no corporation, including local chambers, can make political expenditures," responded attorney Fred J. Krebs, whose specialty is legislative activity among corporations.

"However, chambers can let their members know which candidates they support."

One participant wanted to know how many years the Des Moines Chamber of Commerce in Iowa retained its tax records in case of audit by the Internal Revenue Service. Panelist Jack H. Wesenberg, executive vice president of the Des Moines chamber, replied: "From 1888 on."

## World Economic Outlook

Sen. Jacob K. Javits (R.-N. Y.) told the economic outlook session: "This country is either going to hell in a handbasket or it's on the brink of one of the greatest eras ever."

The direction the country takes, he said, will depend on whether it expands trade or settles into a garrison psychology to protect its current interests.

Others on the panel included Jack Carlson, National Chamber vice president and chief economist; Charles Anderson, president of Stanford Research Institute International; Gary Fromm, SRI executive director; Paul Armington, senior economist at Wharton Econometric Forecasting Associates; and Lawrence R. Klein, economics professor at the University of Pennsylvania. They expressed optimistic forecasts for business in the next few years—somewhere between the senator's two extremes.

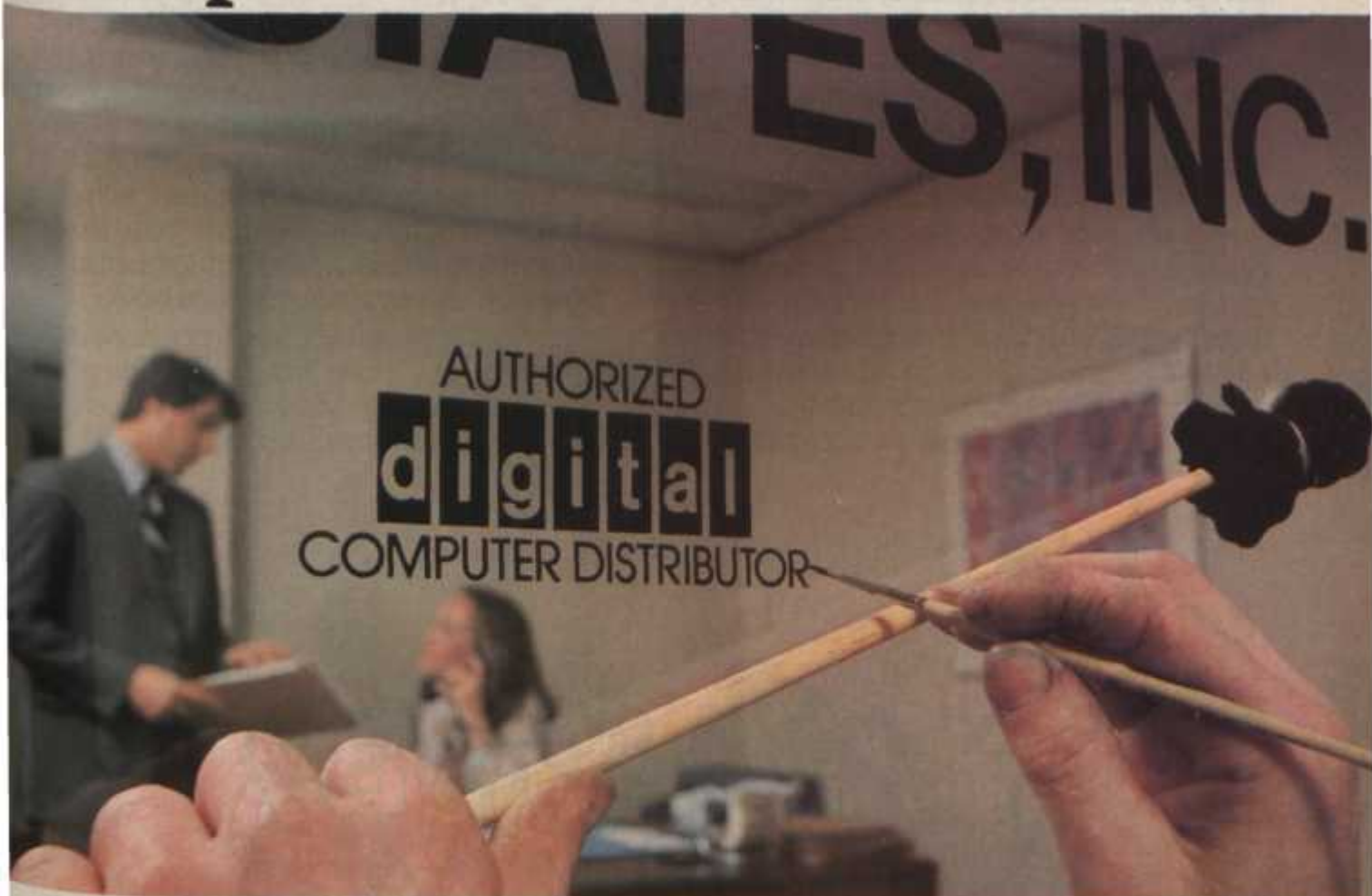
Asked about his long-term expectations for inflation in the 1980s, Dr. Klein replied: "If we hadn't had some disturbances, we would have started winding down inflation to around six or seven percent."

Some of the shocks now being absorbed include the collapse of the government in Iran, oil pricing, and tighter credit. We have to assume these disturbances are temporary and will not be included in all future predictions."

Dr. Armington said that while nobody can forecast exchange rates, the dollar should reach a high degree of stability in 1980. He said he sees no recession, but monetary conditions in the United States will moderate in relation to those abroad.



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"We're in a highly competitive, service-oriented business," says Harry Mulkey, VP-Marketing at the Soflens Division of Bausch & Lomb. "When doctors have to talk to someone immediately, they don't want to wait. They call us—on our 800 number."

Phone calls generally deal either with technical support or orders for Soflens® contact lenses. Orders are immediately entered into a computer terminal at the desk. Invoices are printed every 45 minutes and go out to the shipping area. Shipment is prompt.

"We can compete nationwide

because of the WATS network," Mr. Mulkey says. "Doctors may phone in three or four times a day. They're on a friendly, first-name basis with our phone sales representatives. We handle over 20,000 phone calls a week.

"We've also had excellent results with our outward WATS lines," Mr. Mulkey continues. "We now call our low-volume accounts on a regular basis. Sales on these accounts had been





# BY PHONE, BAUSCH & LOMB BUSINESS IN CONTACTS.

declining. But they've turned it around.  
Sales are up.

"The WATS lines are invaluable for our salespeople," concludes Mr. Mulkey. "They want to know what's happening. If there's a message from a doctor, they pick it up. They get encouragement and support from being in contact with the home office."

Much of the telephone sales training of the Bausch & Lomb phone representatives was done by the Bell System. To learn how Bell can assist you, at no obligation, talk to your problem-solving Bell System Account Executive.

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Bell System







Many innovations and inventions leading to the creation of new industries and firms come from small businesses. The invention of the laser and the development of fiber optics prompted Dr. William H. Culver to establish Optelecom, Inc., in Gaithersburg, Md.



Hardy Chesapeake Bay oystermen typify the spirit of America's small business owners as they challenge the elements and harvest oysters with their unique sailing dredges.



Farmer Earl Grove, Jr., of Hagerstown, Md., says that one of the primary reasons he stays on the farm is that he can make his own decisions without interference.



Creating a new product is one way to profit. Nick Caggiano of Rehoboth Beach, Del., has concocted the Nic-o-boil, a turnover version of the pizza.



# Small Business Keeps America Working

A commentary adapted from a 30-minute film produced for the Chamber of Commerce of the United States for the Center for Small Business

**T**HERE IS something particularly American about the people who run this country's 13 million small businesses.

Small business has been the backbone of America's economic system since earliest colonial times. The American Revolution was as much a blow for economic freedom as for political freedom.

The Founding Fathers were determined to develop an economic system in which individual initiative rather than government would dominate.

They devised a system that limited government and encouraged private enterprise, individual freedom, and personal initiative. They were, after all, essentially business and professional men.

The pioneers took this system westward where it made the young country grow. It was the perfect foundation for the Industrial Revolution and the basis for a heritage of individual liberty that set us apart from other nations.

This characteristic attracted the Irish, Italians, Poles, Germans, Latin Americans, Scandinavians, and others

to America—where creative ideas and innovations could pay off for individuals.

Small business, the livelihood of 100 million Americans, is very much alive today.

All companies begin small—with an idea for a product or service the business owners believe people will want and with the willingness of those owners to back that belief by investing their time and money. There is no guarantee of success, but a few of those who made it have changed the world.

The elevator was the idea of a small businessman named Otis.

The airplane came from a bicycle shop owned by two brothers named Wright.

A highly successful photography business started with a marketing idea by a fellow named Eastman.

A whole new way to merchandise food originated with a hamburger stand named McDonald's.

We depend on many other products that originated with small businesses—the copy machine, penicillin, the zipper, automatic transmission, frozen food, air conditioning, the ball-point pen, and FM radio.

And innovation continues even now in all kinds of small businesses around the nation.

**O**NLY a small percentage of new ideas will change our lives or make their originators rich. But it is the tremendous potential that motivates individuals to invest their savings in new ideas and helps explain

why so many inventions have come from small business.

Many small businesses get under way every year. Like the millions of others around the nation, they give their owners an opportunity to earn a good living—better, perhaps, than they might earn working for someone else. But with this opportunity also comes risk—the risk that they might fail. The chances of success are one in five.

**S**AYS DR. NATHAN A. BAILY, former dean of American University's School of Business and now with Mortgage Bankers of America: "The strength of the American economy is the opportunity for a young man or woman, or one not so young, who has an idea, who is willing to take a risk, to go ahead and test it out, to see what the customer will decide."

"Very few people can go in overnight as full-grown big business. So it's the small business that provides the opportunity. That's the oil that lubricates the system."

Despite their variety, small businesses are all alike in one way. They are all owned and operated by men and women who want to be independent.

Within 150 miles of Washington, D. C., are communities typical of those throughout the United States. The gamut of American enterprise is represented.

The people in the states around the nation's capital have straightforward answers when asked why they decided





The three Schap brothers—Michael, John, and Peter, Jr.—followed an American tradition of sons joining their fathers in business. The senior Schap formed G-S Co., a wire manufacturing concern located in Dundalk, Md., in 1928.

PHOTO: DENNIS BRACK—BLACK STAR



A nuclear engineer for 29 years, James F. Smith, Jr., decided that with the children grown and well settled, it was time for a change. Now he owns a fix-it shop in Delaware.

to become part of small business. Earl B. Grove, Jr., a farmer in Hagerstown, Md., likes being his own boss:

"Even though my average day runs from about 4:30 in the morning to 7 in the evening, I'm working here. I'm near my family. And I think that's a big plus for the type of life I've been looking for."

Neil Whalen, an automobile dealer in Rockville, Md., explains: "I love the independence. I love the challenge. And I love the battle of wits with myself and my own decisions."

Edward L. Lewis, a print shop owner in Washington, D. C., echoes: "Being in business is personal satisfaction, first of all—and the challenge it presents, where you put something in and get something out of it. Creating new jobs for others, creating new skills, seeing it happen, seeing it work. It's a matter of having something that's alive and keeping it alive and having the feeling when you're gone, it can still be going on."

**S** MALL BUSINESS means growth, and growth means jobs.

Nick and Joan Caggiano opened up a small pizza parlor in Rehoboth Beach, Del., after successfully peddling their product out of their home. "All we wanted was a mom-and-pop operation," says Joan, "so we opened with just two employees, myself and Nick." Their shop seated 35 customers at first. It now seats 100 people and employs 24.

William A. Creager opened a word-processing business in Rockville, Md., about ten years ago because, he says, "I could see that more and more people were engaged in what I call the knowledge industry—people who work with their brains instead of their hands." He started with only himself and one other person; the firm now employs 100 people.

**C**REATING new products, expanding markets, and fine-tuning technology—that's small business.

After World War II, J. Martin Benchoff's company was building rubber-tired farm vehicles in a two-car garage in Shady Grove, Pa. He recalls: "We needed equipment to handle the steel and lumber required in the product. We designed a machine that by today's standards is very humble." His firm today builds the largest and broadest line of hydraulic cranes in the world.

With the dawn of the use of optical fibers to transmit information, Dr. William Culver started a laser lab in

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"It's not a matter of finance," says print shop owner Edward L. Lewis of Washington, D. C. "In the beginning it was, but after a while it is a matter of having something that's alive and keeping it alive."

Gaithersburg, Md. He claims: "There's a big new field of communications coming, using light instead of electronic signals. In principle, 100,000 times as much information can be moved from one point to another during a given time."

Many community services are provided by small business.

After 29 years as a nuclear engineer, James Smith, Jr., set up shop as Mr. Fixit in Rehoboth Beach, Del. "We'd always dreamed of being able to live by the ocean. Since I'd owned a home for a long time and had learned to repair everything, I felt this was a reasonable service to offer in a tourist area."

As an independent insurance agent in Washington, D. C., Mary S. Love says: "My main function is to service my client's insurance needs. It's up to me to write a program of insurance so the clients will not suffer financial hardship and ruin."

**S**URVIVING adverse economic conditions, even coping with the elements—that's small business.

Robert F. Sweitzer captains his own oyster skipjack out of Tilghman Island, Md. "Even though the weather beats you to pieces out here in the winter, and there are days when you wish you'd never seen a boat, usually when the season is over, it's worth the effort

because you can make some money out of it."

Peter J. Schap, Sr., started manufacturing screens and wirework in Dundalk, Md., back in 1928.

"The main idea was to earn a living for myself and my family. From the beginning it was very bad, like everyone else's business. It took about five years before I showed any improvement."

Now his three sons help run a very good small business.

**A**S IMPORTANT AS small businesses are to this country, most of them are taken for granted. Says Richard L. Leshner, president of the National Chamber:

"The proof of the system's success is this country's progress over the years. No other society has moved ahead as rapidly as we have.

"Not because we're smarter than anyone else, or a super race, or anything like that. We're not.

"Not because of our scientific and technical know-how or our natural resources, as great as they are.

"No, the difference has been our reliance on the initiative of the individual rather than on governmental direction or control."

Yet, governmental actions threaten the existence of many small businesses.

"We had to raise capital by going to the public market," says Dr. Culver, the laser lab owner. "The cost of doing that, of just filing the required form, was more than ten times what it cost me to go to MIT for four years, including room and board and all my expenses."

"Inflation is really a bad problem at the present time," comments Mr. Caggiano, the pizza parlor owner. "I used to pay 79 cents a pound for beef, now I pay \$1.42. Cheese used to be 67 cents a pound; now it's \$1.40 a pound. I used to get flour for \$6 a bag. I can't touch it now for less than \$13.50 a bag. It just seems as if there's no end to it."

"You could buy two oyster dredges for \$90 when I started, now they're \$500 just for two, and I use 14 dredges," says Capt. Sweitzer.

"That's the same thing that happens to everybody; the price of your product just doesn't keep up."

**W**HAT will keep people investing their time, money, and spirit in small businesses?

Ivan Elmer, director of the National Chamber's Center for Small Business, says: "What small business people seek is a fair opportunity to earn their success in the marketplace instead of having to carry the added weight of taxes, unrealistic government regulations, and increasing red tape that are non-productive uses of their time and resources."

Continued incentive to innovate is vital to the country's future. Innovation assures new and better products, solves many problems, and perhaps will even lead to better ways of using energy and scarce resources. Innovation is a key to economic growth.

Says F. James McDonald, executive vice president of General Motors: "We'd have a hard time delivering a single automobile today without the help of 40,000 suppliers—many of them small businesses. They provide us with many of the parts and components we need to assemble our products. And many of the services we need. And, of course, our dealers are small business people, too. We couldn't do without any of them."

The people of small business—what would this country be without them? How would America keep working without them? Their success is important to all of us—for we are as dependent on them as they are on us. □



To order reprints of this article, see page 94.



## Does the Press Have Too Much Freedom?

**T**HE FIRST AMENDMENT to the Constitution guarantees freedom of the press. Until recently, that freedom was nearly absolute.

With the exception of wartime censorship, the press was generally free to report whatever it could learn and comment on whatever it chose to.

Unhampered by government decree and insulated from all but malicious libel, the American press had the most freedom of any in the world. However, in the past few years, the Supreme Court has handed down several decisions that whittle away at traditional press freedom.

The high court has questioned the right of news reporters to shield their sources of information from publicity. Some reporters, most notably Myron Farber of the *New York Times*, have gone to jail for refusing to reveal the names of their news sources to judges. In 1977, the court rejected the argument that a newsroom should not be searched by police looking for criminal

evidence unless they had a warrant. More recently, the Supreme Court held that journalists in defamation suits would be required to answer questions about their intent in writing or broadcasting a story.

This ruling came in a suit against a television producer. The court opinion said that to prove actual malice on the part of the reporter, it was necessary that the reporter's state of mind while doing the story be determined.

News reporters, editors, and publishers have come under increasing criticism for abusing press freedom. The charge is made frequently that while the printed product may be on the safe side of libel, reputations are damaged and even destroyed by careless or deliberately vindictive reporting.

Some business people are reluctant to talk with news reporters for these and other reasons, while others see an advantage in maintaining good relations with the press.

Sen. Edward M. Kennedy (D.-Mass.),

chairman of the Senate Judiciary Committee, said recently: "No reporter should have to go to jail for defending the First Amendment. No editor should be forced to take a lie detector test at the whim of a disgruntled plaintiff in a libel suit. No publisher should be the victim of large fines for defending his editors and reporters or his basic right to publish."

"If the Supreme Court drops the ball on issues like these, it is up to Congress and the administration to pick it up."

And Sen. Daniel P. Moynihan (D.-N.Y.) put it this way: "Today we face the evident situation that the Supreme Court will not confirm the existence of press immunities under the First Amendment."

Many lawyers, judges, and some Supreme Court justices believe that the press should abide by the same restrictions and restraints imposed on all other public institutions.

What do you think? Does the press have too much freedom? ☐

PLEASE CLIP THIS FORM FOR YOUR REPLY

Wilbur Martin, Editor  
Nation's Business  
1615 H Street N. W.  
Washington, D. C. 20062

Does the press have too much freedom?

☐ Yes ☐ No

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As Peter Haff, Assistant Vice President, Bank of Virginia, says, "Any company that doesn't closely analyze what Presort can do for them, is foolish."

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## Time for a Second Convention?

**T**HE UNITED STATES has not convened a constitutional convention since 1787. But if it were up to the majority of readers who responded to the April Sound Off to the Editor question, there would soon be a second one.

The impetus for calling another constitutional convention comes from many groups across the nation that are concerned about runaway federal spending. They have little faith in the 96th Congress's promises to curtail the growth of another burgeoning budget. Only five more state legislatures must be added to the 29 that have already voted to have Congress call another convention.

Opponents of the idea point out that 70 bills have been introduced to balance the budget. Their major concern is that the convention, once convened, will not restrict itself to the question of limited government spending, but will open a veritable Pandora's box of legislation from school busing to abortion.

"Our Founding Fathers designed a system which, although not foolproof, should be able to withstand a constitutional convention," says Kent J. Staver, membership coordinator of the Pennsylvania Chamber of Commerce, Harrisburg, who favors a convention. "The laws reflect the will of the people in this country. Let them decide if government spending is out of control."

Ray E. Marchman, Jr., executive vice president of the First National Bank of Atlanta, agrees that there should be a constitutional convention. He says: "Something must be done to bring the government under the control of the taxpayers. It's time for a bloodless revolution."

"There is no other way to control the Robin Hoods of the red ink in the executive and legislative branches," says John N. S. White, owner of the A & A Dog & Cat Hospital in Los Angeles.

"State and municipal governments must live within a balanced budget," says John W. Galbraith, president of Securities Fund Investors, Inc., St. Petersburg, Fla. "Inflation could be eliminated if the federal government also lived within its budget."

### Keep the Traditional Method



"I am writing on behalf of Citizens for the Constitution, a nonpartisan group formed to avert the call for a constitutional convention."

"I am opposed for several reasons. First, the convention method is a radical and unpredictable way to amend the Constitution. Fears of a runaway convention rewriting our basic document of government are very real.

"Second, the Constitution should not be used to define specific policy actions, including economic ones.

"Finally, the traditional method of amending the Constitution worked well in the past, and there is no need for a convention to balance the budget. I believe that the President can balance the budget by 1981.

"If he does, the federal budget will be balanced well before a convention could be under way."

Thomas P. O'Neill III  
Lieutenant Governor  
Massachusetts

William R. Ratliff, senior vice president of Turner, Collie & Braden, Inc., Houston, Texas, says there may be hazards to a convention, but they would be less serious than present spending trends.

John W. Lambert, president of Jackson Aluminum Co., Jackson, Ohio, agrees that there should be a constitutional convention but feels that it should be wide open to all issues. He favors one representative from each county, freely elected from no less than ten aspirants. And, no politicians.

Bruce Marc Tenenbaum, general counsel for Borough-Wide Estates, Inc., Bronx, N. Y., is opposed to calling a constitutional convention to limit spending. "It may be desirable to cut spending at the moment," he says, "but to assume that it will be the case forever is foolhardy. Just as many useful programs of the 1930s are inappropriate to our current situation, so, too, a constitutional spending limit may be inappropriate and possibly disastrous to an

economic situation 50 years hence. Our hands must not be tied forever because of solutions to current problems."

R. W. Larsen, manager of the J. C. Penneys Co. in Tekamah, Neb., also opposes another convention. He says: "If this government is really of, by, and for the people, our elected lawmakers should be able to hear their electorate telling them to balance the budget now. One of them should be bright enough to author an effective bill and sell it."

A constitutional convention seems like a good idea to Norman Grey, senior vice president and creative director at Bozell and Jacobs, Inc., Atlanta. "But," he admits, "I'm scared to death that the bureaucrats will destroy the good we've had and leave us an unusable mess. The need to limit spending is vital. Too vital to be left up to the politicians who do the spending."

"It is remarkable that our Founding Fathers were so brilliant and their sons and daughters are so stupid." □



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# Philips Is Back on Course and Coming About

By Priscilla Anne Schwab

**J**ESSE PHILIPS would rather be sailing. In fact, that's what he was doing when he took a telephone call in Newport, R.I., and learned that the company he had founded was about to founder on the rocks of short-term debt.

Mr. Philips took the next plane to Dayton, Ohio, to rescue the small business he had built into a \$200 million mini-conglomerate. He gave up semi-retirement and the America's Cup race in which he was cosponsoring the *Mariner* to do battle with 18 bankers who wanted to cancel the firm's credit lines and call in \$24 million worth of loans because the mobile home market had taken a dive.

"We had \$6 million in the bank, but that wasn't enough to cover," says Mr. Philips today. "I and a couple of others worked straight through the next ten days, putting together a package to convince the banks to stick with us. I asked them all for a year's grace. One bank insisted on a million dollars then and there. We paid it but convinced the others to wait."

"I had meeting after meeting. We pounded and pounded, closed ten plants and sold off a few others. Within a year, we had paid off the \$23 million. It was not pretty, but we survived."

## Gallon-sized fortune

Today, Philips Industries consists of five divisions: The mobile home and recreational vehicle group, which makes aluminum windows and exterior doors, axles, water heaters, LPG cylinders, and roofing; the Lau division, which makes fans and blowers for heating and air conditioning units, ventilating com-

ponents, and humidifiers; Lasco, which makes molded fiberglass bathtubs, building panels, and plastic pipe and fittings; Malta, which makes wood windows and patio doors for on-site housing; and Twin Pane, which makes insulated glass. Sales for the year ending last March totaled \$268 million, and profits reached \$11.4 million.

In 1956, Mr. Philips had nothing but 17 years' experience and the gallon-sized fortune he had made in retailing. Twenty years before, he was a scholarship student at Oberlin College where, besides academic accomplishments, he played football as the lightest running guard the school ever had.

## Learning about people

After graduating from Harvard Business School, where he had gone to learn how to be a banker, he took a job with a department store in Hartford, Conn., as a trainee buyer.

He quickly proved his prowess as a buyer, but, he admits today, "I had a lot to learn about people." Mr. Philips bought a truckload of stationery for the store's August sale—"three boxes for a dollar or something like that," says Mr. Philips. "I got the table set up on the main floor of the store and put up the signs, and when we opened we had a rush of customers. After an hour or so things quieted down, and the salesgirls straightened out the table so everything was neat."

"People kept buying steadily, and I kept replenishing the merchandise. I noticed that whenever I was restocking, people would gather around to see what the new stuff was—they thought they might miss something. And we would have another flurry of buying."

"Well, I decided, this was great, I'll just keep piling more boxes of writing paper on the table, and people will keep buying. They did. And I said, boy, I am a genius, this is fantastic. About the middle of the afternoon, the merchandise manager called me. I went upstairs expecting compliments on my great sale."

"Instead, he asked me why I was causing all this trouble. The three girls who had been working on the table had come to him in tears. I was astounded, of course, and started telling him about my terrific sale, and he said, the girls spent hours straightening out the table, and you kept messing it up. I explained about the restocking, and he said, why are you telling me about that, why don't you tell them? You go back down and stop them from crying."

"Then and there I learned to explain to your team what you want to do and why."

College during the post-depression years was a kaleidoscope of studying, waiting on tables, sweeping floors, and washing dishes. "I didn't last long at dishwashing," says Mr. Philips. The summers were spent scrambling to amass enough money to augment his scholarship.

## Small towns

One summer, Mr. Philips established a door-to-door dry cleaning service. "My father was in the business, and I would call on people in the small towns around Hartford. My father would clean the clothes, then I would deliver them for a little more than the usual price. That was my profit."

At the end of the summer, he tried to sell the route—"it was a money-





Checking the quality of Lau blowers are Henry F. Seebach, a marketing manager; Richard A. Mullen, president; and Lou Maggs, plant manager (right). Mr. Philips acquired the Lau Blower Co. in 1969. Last year, sales were \$44 million.

maker"—but couldn't find a buyer. So he hired a man to keep the route going. "I wasn't too good at sizing up people," says Mr. Philips today. "The guy made all the collections and then absconded with the cash."

A second college venture was more rewarding but pitted young Jesse against the Greyhound Corp. "My problem was how to get home to Hartford for Christmas; I didn't have any money," says Mr. Philips. He tried to become the campus agent for the big bus company, to sign up busloads of students to go home. But they weren't about to hire a penurious student.

#### Glamorized trip

So he located the Indian Trails Bus Co., which agreed to pay him five percent of the fares he could produce. "I got pictures of their buses, put them on a few bulletin boards around school, and glamorized the trip—take a midnight ride to New York City. We had lots of students from the East."

Mr. Philips talked up the trip and soon had two busloads of students. By the time the Greyhound representative arrived on campus, everybody had bus tickets home. Greyhound tracked down the enterprising Mr. Philips and informed him that he was breaking the law and would get into all kinds of trouble.

"Two men came to the dorm and told me I should turn over all the names and money to Greyhound," Mr. Philips recalls.

"I said I couldn't do that, and they

started threatening me with legal action. The housemother threw them out when they began cussing.

"They went to the dean, of course, and I got called on the carpet to explain myself. The upshot was that I made a deal with Greyhound. I got a five percent cut on every student who rode a Greyhound bus to or from Oberlin, whether I signed them up or not. So I had a little income, and I got free rides home."

At Harvard Business School, Mr. Philips opened up his own firm—in his room—and sold typewriters for the Royal Typewriter Co. "It was against the rules," he says, "but they never found the machines. I used to hide them in the radiator wells."

With the typewriters went carbon paper, which Mr. Philips sold from office to office in downtown Boston. "I got a 25 percent commission."

#### Family-owned store

After his stationery success at G. Fox & Co. in Hartford, he moved through various department stores like wind through a yacht's rigging. He went to work for a family-owned operation in Cincinnati, which was going down for the third time.

"I had been skiing in Canada and arrived at the interview without any business clothes," says Mr. Philips. "We talked all day, and they asked me to stay the next day, and I did, and they asked me to stay again, and I did, but I sensed something wasn't exactly right. So I questioned one of the sons.

"Well, I was making \$25,000 a year then, and the president of the company, the guy I was going to work for, was making only \$15,000. I said that's no problem. I'll halve my salary and start for \$12,500, but I want five percent of any increase in sales."

The firm hadn't had an increase in five years, so the family thought it was a good deal—until the end of the first year. Then they owed Jesse Philips \$40,000, which they couldn't pay.

"They were very proud people," says Mr. Philips. "They hated to admit they couldn't pay their debts. So I said, let me buy the minority stock, and I did, at \$10 a share. I never did get my money from them, but a year later, I sold that stock to Litton and made a half million dollars on the deal."

#### Equity interest

From Cincinnati, it was a short jaunt to Dayton to another department store that needed bailing out. "I told them I didn't want a contract, that they could fire me any time they wanted to, but if I stayed a year, I wanted an equity interest. When I took over, they had a \$280,000 loss. The first year we made \$80,000."

How? "The first thing I did was hire some good merchandisers and get them fired up. I added a quarter of a million dollars to the payroll. Then, we reintroduced tabloid advertising and ran promotions.

"During one million-dollar sale, we had to call out the police because the customers were stacked solid 20 feet to the curb and into the street, waiting for the store to open. We got people talking about the store. We made it exciting.

#### Planning retirement

"You know, in all stores carrying the same price line, 90 percent of the merchandise is identical. You have to balance your inventory and do a good job of promotion."

After Mr. Philips got that store on course, he sold his interest to a chain and planned his retirement—at 42. "I had enough money, so I didn't have to work. I knocked off for a year," he says. "I did some skiing and played a lot of golf—got my handicap down from 21 to 14—and checked out at least 51 companies."

It was while he was looking around for investment opportunities that a friend persuaded him to look over the Jalousies of Ohio company in Dayton, which made windows for mobile homes. "I had never been to a manu-



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Jesse Philips gave up sailing and the Charisma—the model at left—to salvage the company he founded in 1957.

facturing company in my life," says Mr. Philips. "I didn't know a punch press from a press brake."

The owner wanted \$400,000 for the plant, which had 20 employees and netted \$40,000 a year. "It wasn't that much," says Mr. Philips today. "But my friend told me after we signed the deal that he thought I had bought it too fast; I should have offered \$375,000."

Mr. Philips had good reason to worry. He had checked the company out thoroughly and had researched the industry. He concluded the firm was in a unique position within the industry to keep pace with the fast-growing mobile home industry and the new fad of home improvement.

#### **Took to the road**

He took over the company in October. "A week later, the owner told me I was all set, but he would hang around in case I needed him," Mr. Philips explains. "Well, I think I saw him one day, then I never saw him again. And there we were, with all this stock and no orders. Nobody buys windows in November. I closed the factory, laid everybody off and wondered what to do."

Mr. Philips took to the road. He wrote down on three-by-five cards all

the pluses of the firm's window and went to Michigan to see a major manufacturer of mobile homes.

"It took about an hour to sell him the window and about two hours to figure out a price," says Mr. Philips. "It should have taken five minutes. But they said I ought to check my price overnight and come back in the morning. I checked with the factory that night and went back the next day and got the order. Years later, I found out that my price was so low they thought I had made a mistake."

The price was low because Jalousies' window was specifically designed for mobile homes. "We had a better product with more features and a lower price, but of our 13 competitors, we were the smallest," he says. "The previous owner had had an excellent product; he just hadn't sold it. I came back from Michigan with orders for three truckloads of windows."

#### **Broke the doldrums**

The second big order was a little longer in materializing, but Mr. Philips had broken the cyclical doldrums of the industry, and it wasn't too many years before his firm was the only one employing people during the winter.

Today, Philips Industries' corporate headquarters is a scant quarter mile down the street from the company's beginnings. Mr. Philips, who now commands 31 plants and 4,700 employees, recounted how he applied retailing pizzazz to a staid manufacturing firm, how he deep-sixed the competition and built a diversified fleet of companies, and how he plans to make his next retirement permanent.

#### **Mr. Philips, why did you start your business career in retailing?**

I never expected to. I went to Harvard Business School to get into banking. My senior year I received a call from Prof. Malcolm P. McNair, one of the fabulous names in retailing. He was teaching a course at Harvard, and I was number one in his class.

He said: "Philips, I just found out you are going into banking. I thought you were a retail major." I said, yes sir. He said: "Do you have any family on Wall Street?" I said, no sir. He said: "You are going to be a disappointment and an embarrassment to the school. We can't get you a job on Wall Street. Why don't you go into retailing? I can get you seven offers tomorrow." I said, yes sir. If that is what you think I ought to do, I will. He said: "You will have just as much fun." And I have.

#### **Why did your company nearly go under in 1974?**

We had a water heater plant in Louisville, Ky., that was losing half a million dollars a month. We could have carried that loss and turned the factory around with enough time, but the recession arrived, and the bottom fell out of the mobile home industry upon which we depended.

Another problem was that while I was semi-retired, there was a lack of long-term planning, contingency planning. There weren't many wrong decisions, but the management team had expanded the business too quickly without figuring out what would happen if the market were to contract.

We just did a poor job of financial management. The company used short-term loans to acquire plants and fixed assets. It really wasn't the banks' fault. They had all overextended themselves and were trying desperately to get liquid.

#### **You won't get caught like that again?**

No, we won't. Part of our operating plan is to keep fixed costs to a minimum—low enough so that the company can handle a 20 or 30 percent downturn in the market and still make money. Bob Brethen, our president, is very careful about costs. Also, we do not have \$24 million in short-term debt. We restrict our bank borrowing to seasonal needs.

#### **Are you expanding at all?**

All the time, but cautiously. We spend \$6 million a year on capital improvements. We are building a \$2 million facility in Dallas right now, and we have spent more than \$1 million at the Malta plant to gear up for the manufacture of our new vinyl-clad window.

There is no problem with expansion, but you pick your spots carefully, and you make sure you have enough flexibility in your plans to cover all the things that can happen.

#### **What happened to the Louisville plant?**

We closed it. Not right away. We kept it about a year, but we really didn't have the expertise to handle it. We had been making electric water heaters for mobile homes, but as the homes got bigger, they needed 30 to 40-gallon heaters, so we decided to get into gas hot water heaters.

We were offered a going business doing about \$20 million a year in gas



water heaters. We jumped at the offer and didn't check it out as thoroughly as we should have. We were stuck with an obsolete product and archaic machinery. Subsequently, we opened a new plant in Kentucky. We were under tremendous pressure to start producing water heaters right away.

When I got through the debt crisis, I had Arthur D. Little do a study on the Louisville plant. Their people said the machinery wasn't right, the organization wasn't right, nothing was right with that plant. It would have taken too long to salvage our investment, so we closed it. Our volume had shrunk with the recession, and we didn't need that much capacity.

#### **What impelled you to go into the mobile home market initially?**

Mobile homes have had a negative image, but I think that is going to change. Initially, the industry took off in the 1960s, and we went with it. Today, it's about of half what it was. But I think the industry will come back. It's the only economical way to build a house. You buy a house today, and more than half the cost is labor. Mobile homes and, lately, manufactured and prefabricated housing have a ten percent labor cost. Also, you get more house for your money because the manufacturer buys in quantity.

#### **But what if the market shrinks again?**

We now have enough good lines going for us that the cycle won't ruin us. We play the percentages. For example, if 60 percent of your business is supplying General Motors, and the auto market slumps, you're in trouble. But if you have several markets, then it doesn't make that much difference whether they make ten million autos or 12 million.

#### **So small is beautiful?**

Well, it's profitable for us. Now, in our Lau division, we have a much larger percentage of the market, 40 percent or so. And it is difficult to increase that share. If the air conditioning and heating manufacturers have a poor year, Lau division probably will, too.

#### **Why was there such a huge turnover in staff during the mid-1970s?**

Anytime you have a growth company, you are bound to be turning over people. When you're doing a couple of million dollars a year, you have an accountant. By the time you get to \$20 million a year, you hope that your accountant has grown into a vice president.



Mr. Philips and his wife, Caryl, are still searching for suitable antiques to furnish their showplace home on Honey Hill Lane, which is embellished with their collection of modern art. The house is a poetic adaptation of an Italian castle.

dent for finance. But everyone doesn't grow as fast as the company grows.

#### **How do you motivate employees?**

We tend to hire people who really want to achieve. We don't attract the professional manager type who is accustomed to a structured working environment. We give our people challenges and a lot of responsibility. We don't hesitate to cross lines of authority. I just don't buy the organization-man structure. That is not my style.

We expect our people to make mistakes; we don't criticize people for making the wrong decision, we criticize them for not making a decision. I expect our people to do their homework, to put in the time needed to make the decision, but if the decision turns out to be wrong, we pick up the pieces and continue. We hope they make more right decisions than wrong ones, of course.

#### **Do you delegate a lot?**

Well, if I am out of town, it is up to the people in charge to make the decision. They are not supposed to wait for me to get back. When I do get back, if I feel they didn't make the decision exactly the way I would have, that is my tough luck. As long as they used their best judgment and were conscientious, there is no comeback.

#### **How do you teach good judgment?**

You don't teach a person judgment. You learn to make decisions by making

them, through experience. Most of the things being decided are not that complicated, and most people know the answers. However, most people do not like to take the responsibility for making the decision.

When someone comes to me and asks a question, my usual response is: What do you think? The person will answer, and nine times out of ten, that is what we will do. We're not trying to get to the moon. The problems are not that complicated.

#### **Where do you find the kind of people you want to hire?**

We're looking within the company these days. We train most of our plant managers. We went through a retraining period when we lost a lot of people whom we had trained, and we brought in people, but now we are back into internal development. We expect to move people up within the company. We send our employees to classes—we sent one fellow to Harvard Business School and we plan to send more.

#### **Do you believe in diversification?**

Originally, we were 100 percent in the mobile home industry, which, by the way, has a very low profit margin. Today, less than half our sales are in that industry. The other divisions have higher profit margins. We are continuing to diversify; for example, we make components for recreational vehicles and fiberglass panels for greenhouses.

The other things we insist on are





Robert H. Brethen, left, president of Philips Industries, and Mr. Philips have set a steady-as-she-goes course.

quality and service. These are the real reputation-builders. We're just now getting into an advertising campaign for the new vinyl-clad window made by the Malta division. But it will also be a Philips window. I want the name to be synonymous with quality. We have set up a company identification program, using the same logo for all the divisions. In the past, we spent more on trade promotion than on consumer advertising.

#### How do you promote mobile home components?

When I took over Jalousies, a beat-up station wagon was part of the deal. I called on customers all through December, January, February, and it wasn't until March that I got the next big order for our windows. I called on every prospect in Michigan, Indiana, Wisconsin, and Pennsylvania—not once, but frequently—and pretty soon the 13 competitors we started out with had been reduced to two. Within a year, instead of \$400,000, we were doing a couple of million dollars in sales.

But I guess I always was a promoter. I wanted to sell quality, not price, so I kept coming up with ideas. Once we sent all the mobile home manufacturers a case of Campbell's tomato soup. The letter that went with the soup asked: "Why does Campbell have 90 percent of the soup market? There must be a reason. It's the same reason Philips is getting the biggest share of the window and door market. Quality."

One time we sent them all one share of Benquet, a mining stock; it was selling for 50 cents. We said in that letter: "Frankly, the reason we are sending you Benquet is that it is the lowest priced stock on the New York Ex-

change. However, the fact that it is low priced doesn't mean it is the best value. Check Philips' windows for value, not price."

What a time we had with that gimmick. The exchange forced the company to issue 300 one-share certificates and it cost us about \$1.50 to send out each one. Then one year, Benquet declared a dividend of five cents. So each of our customers got a packet this thick and a check for five cents.

You see, nobody had ever done any razzmatazz promotion in this business, and there were only 300 or so manufacturers, so we knew everybody. We could afford to spend more money per account because of the limited number of people. We might get an order worth anywhere from a few hundred thousand up to a million dollars, so the return would be tremendous.

People were fighting to get on our mailing list. They never knew what we would come up with next. Once I sent everyone a silver dollar. The letter said: "If you want to gamble, you can have lots of fun with this in Las Vegas, but why gamble on windows? Check out Philips' new frost-free windows."

Another time, while implementing our service program, we sent all the wives of our customers flowers for Valentine's Day, and had the florists sign the cards: "Thinking of you, love, guess who." My thinking was that the guy would come home, his wife would thank him for the flowers, and he would be mystified. However, some husbands became jealous and berated their wives. All the husbands received letters the next day, explaining: "As we have been telling you all along, Philips takes care of all your problems; we even took care of your wife on Valentine's Day."

One year, we had Miss America at the industry trade show. We sent all our customers personalized invitations from her. They said: "Dear Cecil, I missed you in Atlantic City last year and look forward to seeing you in Louisville. Love, Mary Ann." A lot of wives came to the trade show in Louisville that year.

#### How did you move from windows to blowers?

Since we were selling windows to the manufacturers, why not sell them doors? And if doors were a natural, so were roofs and axles. We kept adding companies, looking for the quality one in each line. We picked items that were uneconomical for the mobile home companies to make. And we

avoided competing with big companies.

#### What made you leave the company in 1971?

It was too big for me to direct alone, and I had been putting together a management team. I had really wanted to retire 20 years earlier but got involved in building the company. So this time, I was going to devote time to sailing and skiing.

#### How did you get into sailing?

When I was just out of college, I decided to try it one day, so I chartered a little sailboat. I knew nothing about it, but it didn't seem that tricky. I spent the day trying to get from Stonington, Conn., to New London against the tide and without much wind. I had to be towed back to Stonington. The man whose boat I had chartered tore up my check. Still, I went out the next day with a teenager who taught me how to jibe and come about.

Twenty-five years later, I bought my first yacht, a Columbia 38. By 1969, I had taken courses in navigation and was sailing regularly with a crew. Over the years, I had three racing yachts, all named Charisma—it means a mystical, magical quality that others want to follow.

In the early 1970s, we were selected several times as one of three yachts to represent the United States in international competition. Charisma did not race unless I was on her. We have raced across the Atlantic, in the English Channel and Irish Sea, and off Bermuda and South America. I donated the last Charisma to the U. S. Naval Academy when I went back to work.

#### What is your most cherished trophy?

It's an eight-column headline on the front sports page of the *New York Times*: Philips Wins Mackinac Race Second Year in Row.

#### Are you happy being back at work? Or would you rather be sailing?

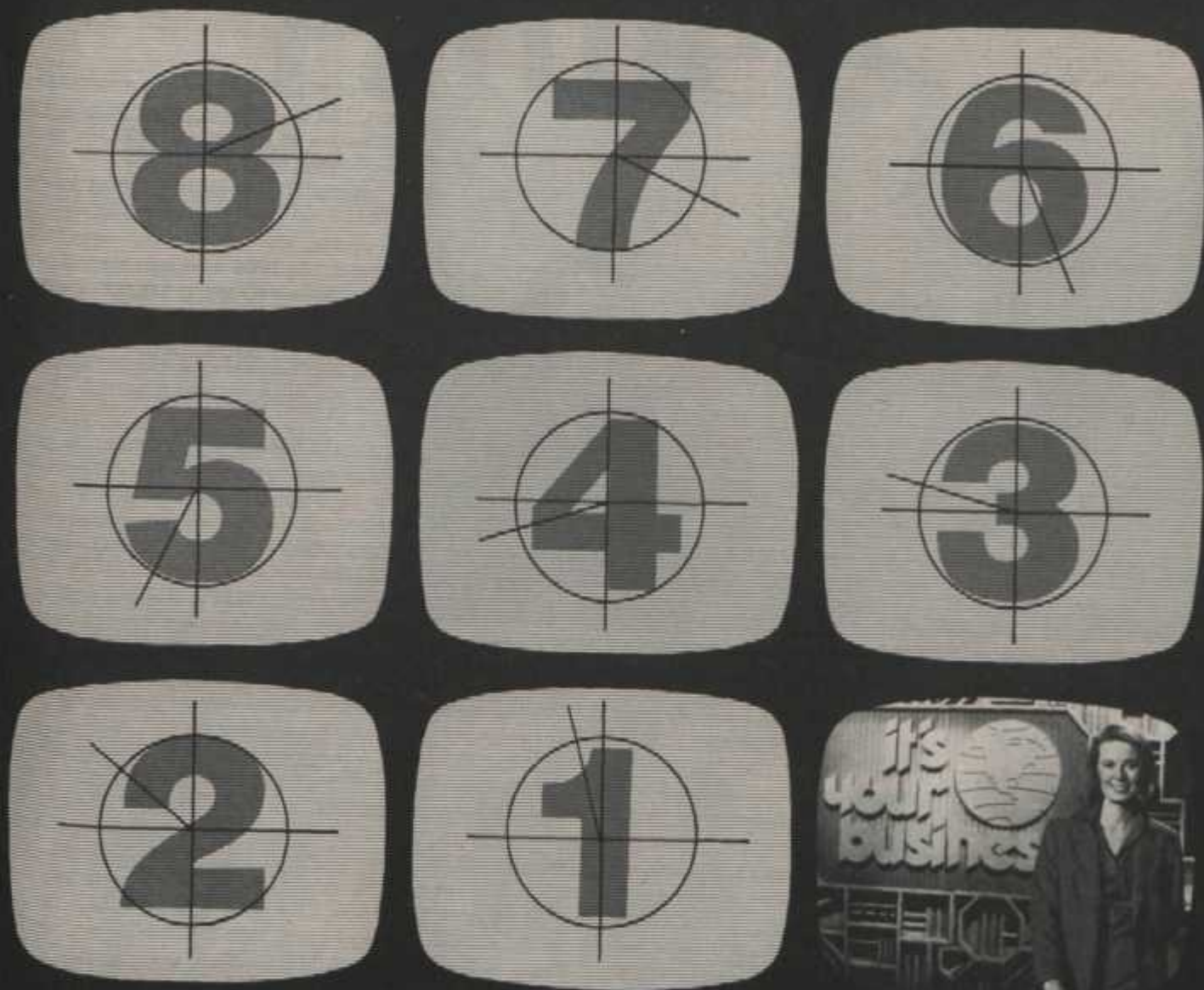
I enjoy the work. But all along I was building a team so I could get out completely. That team didn't work. Now we have built a new team.

I have been retiring since I turned 42. Life is just full of so many options. I would never quit working completely, but I would like to have more time to myself. I can do without a fixed schedule. I am going to retire. I don't know when, but I am. □



To order reprints of this article, see page 94.





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Robert Rosen and Morton Scheer... there is no nice way to fire a person.

## Plenty of Profitable Trouble

Morton Scheer and Robert Rosen are always looking for trouble. And they never have much trouble finding it.

The two are founders and partners of Service Resources Corp. Ltd., an innocuous name for a company that tells other companies where they went wrong. Mr. Scheer and Mr. Rosen are pleasant enough people, except when they are dealing with a company president who had the simple choice of calling them or going bankrupt.

"The man is not paying us to be nice," says Mr. Scheer. "He's paying us to turn his company around, and if he doesn't do what we tell him, his company will probably go down the tubes. And if we can't save his company, we tell him that first."

Take a typical family business that started with Mom and Pop and grew like crabgrass into sales of several hundred million dollars a year. The firm has always made pots of money, but lately, the profit margins have been contracting, and the company is about to show a quarterly loss for the third time.

"Two common symptoms of companies in trouble are poor management and lack of sales," says Mr. Rosen. "If it's the latter, there is nothing we can do.

But if management is to blame, we can do plenty."

The first thing they do is collect four or five years of the company's financial statements "and spread them. We go over them item by item, category by category, dollar by dollar. We can tell right then what the main problems are," says Mr. Scheer, who gained his accounting acumen while setting up an accounts receivable financing business for General Electric Credit Corp. in the early 1960s.

Another thing the partners do is conduct a thorough survey of the company, which pinpoints the problems from the employees' side. "Everyone we talk to lets out pent-up emotions about the firm," says Mr. Rosen. "People might be afraid to tell the foreman he's a dummy, but they don't mind telling us.

"Everybody loves us when we go into a plant. They tell us all we need to know. In about two weeks, all the love for us has generally disappeared."

The reason for that is that Service Resources gets people fired. "One company went from 350 unhappy workers to 205 happy, productive people who are getting twice the work done," says Mr. Rosen. "There is no nice way to fire somebody."

Is all that firing necessary? "Of course," says Mr. Scheer. "You talk to management about a machine's productivity, and then you go into the factory and watch four people standing around

a piece of equipment having a conversation. The company is losing money. I'd rather fire 80 people and save the jobs of 200 than lose the company."

Managers are not immune to being fired. "I can show you top managers in a company, vice presidents," says Mr. Scheer. "In 1968 when we started our firm, they were earning \$40,000 a year. Today, they have doubled that, but, you know what, they didn't get any smarter. They didn't double their mental capacity. We have had more than a few managers canned."

One of the biggest barriers to Service Resources' success is ego. "We have to be hard-nosed," says Mr. Scheer, "especially with a man who blames his company's failures on the economy, not on himself.

"Everybody likes to think he or she is doing the job," he adds. "Nobody likes to admit his failures, especially bank vice presidents who have made bad loans or company presidents who have overextended their financing."

The partners are not shy about telling such people what they really don't want to hear. Service Resources charges a set fee, depending on the size of the company, plus a certain percentage of the increased revenues the company earns. "We make lots of money," says Mr. Rosen. "We make company presidents do what needs to be done."

Adds Mr. Scheer: "Look, all we have to offer is our credibility. If we louse up once, we'll be in trouble."

In other words, the partners don't profit from other people's troubles unless they can turn other people's troubles into profits.

## Personnel VP Talks With Limes

Carolyn Tomacek was scared to death when she walked into the office of Edward Noah, who heads the CNA Insurance Co. in Chicago, Ill. "It was the first time in my whole life that I had ever met a chairman of the board," she says now. "After I sat down, he started telling me about a very detailed area of data processing. He was talking my language."

Ms. Tomacek, now vice president for personnel at CNA, was then a marketing



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# Burroughs



manager for IBM, and was calling on Mr. Noah to talk about computers. He was reorganizing a company that had almost diversified itself to death.

"The level of computerization in the insurance industry is between five and ten percent of what it could be," says Ms. Tomacek. "Insurance is people and paper. When you increase the amount of paper, you increase the number of people to handle it. But you should reach the point where you don't have to add more people. You use computers to take on the drudgery of increased paperwork."

The popular fallacy is that computers replace people, but the reality is that computers create more jobs, says Ms. Tomacek. With that belief, she had little hesitation in jumping from computer processing to managing people.

"When I left IBM, nobody could believe it," she says. "I was a happy employee, very loyal. But CNA offered the opportunity to be in a company at a high level early in my career."

"It will let me find out what I am really capable of doing."

The switch was not without peril. IBM was and is at the top of the success

ladder. CNA was plagued with the problems that flow from management's neglect of the basic business.

But Ms. Tomacek had graduated from a small Catholic girls' college—"I think there were 500 of us"—to a master's degree from the University of Chicago; from helping every Saturday in her parents' Czech bakery to teaching high school mathematics; from working as a systems engineer for IBM to motivating salespeople as a marketing manager. She is a self-admitted quick study.

"A company chairman, at least our company chairman, spends 80 percent of his time on people issues. He can reduce any situation down to who do you have working on the project and are you confident in his or her ability to get it done. With the right person, you can fix anything," she adds.

CNA's people are scattered across the country in about 165 locations and 30 branch offices. The first time the branch managers met with Ms. Tomacek she told them that her success depended on their doing a good job. Then she gave them each a lime. "I said: 'This is your own personal lime. Keep it with you. It will cost you a buck if you don't have it on you at all times."

"You can do whatever you want with it. You can sleep with it, you can massage it, you can write on it."

"One guy cut his lime in half and ate it. Anyway, at the end of the three-day workshop, I took all the limes back and put them on a table."

"Then I asked them all to come up and pick out their limes. To those who could identify their limes, I said: 'If you can only get to know your people in as short a time as you got to know your lime, you could be a much better manager than you already are.'"

"The lime thing may have been a little corny, but people with real managerial talent are an endangered species," says Ms. Tomacek. □

Carolyn Tomacek ... a quick study.



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# Business Life-Style

*Using a stereo headset is the best way to get into your own taste in sound without imposing on others. The basic elements of an all-purpose hi-fi system are speakers, a tape deck, stereo receiver, and turntable.*



PHOTO: ARNOLD/RANDOLPH—USPHOTO



*Eric R. Zausner of Washington, D. C., a Booz, Allen & Hamilton senior vice president, spent \$40,000 on this hi-fi rig, which includes tape deck, amplifiers, digital FM tuner, and a turntable.*



## LISTENING:

# TUNE IN AND TURN ON

**W**HEN he was a teenager at Eastern District High School in Brooklyn, N. Y., Mel Gevanter aspired to a stage career; specifically, he wanted to be another Frank Sinatra.

"I grew up in that era," he says. "I was very fond of Sinatra as well as other singers like Perry Como and Vic Damone.

"If you had black, curly hair and looked like Sinatra, you tried to sing like him.

"Everybody did."

It wasn't just infatuation with fame and footlights that gave young Gevanter the yen to croon.

"You're popular with all the women," he confides. "It's better than football."

And of course, as any football player knows, a lot easier on the knees.

But Mr. Gevanter had a problem.

"My Brooklyn accent," he explains. "It was something I tried to get rid of quickly.

"I bought a mike, hooked it up to an old radio, spoke into the mike, and listened to my voice as it came out of the speaker to hear what I really sounded like.

"Later, I started recording and playing it back.

"I found that reading and recording things like Shakespearean plays was a very good way to improve my diction."

Mel Gevanter never did become another Old Blue Eyes.

"But that mike," he says, "was what got me into hi-fi. It was the beginning of my venture into audio."

Mr. Gevanter is now vice president of Lifetime Studios, Inc., in Great Neck, N. Y. He and his partner own the firm.

Business is business, but hi-fi is where his heart is.

"I'm an audiophile," he says, "and we're a strange breed. We're hooked on sound."

From a cheap mike, he went to a set of speakers that he made—or boxed—himself. Then, step by step, to the elaborate system installed in his home today.

"Now, I have a pair of six-foot-high speakers a foot and a half wide that look like Japanese screens. My set of controls looks like the dashboard of a 747.

"When new and better equipment comes in," he says, explaining his compulsion, "hi-fi buffs have got to have it." What is it that he and his growing fellowship of addicts find so groovy?

"Well," he says, "I think a real audiophile like me is the guy who stands at this big lighted board and turns a dial one notch to the left and moves another dial a little bit from here to there.

"The equipment is so intricate and there are so many things you can do with it that it just boggles the mind."

But power-mad fiddling with equipment isn't the real secret.

"It's the sound," says Mr. Gevanter softly. "The sound is the thing. It's like someone who loves chocolate. He can eat it until he gets sick."

That's why the present his employees gave him for his fiftieth birthday was such a big hit.

The gift?

Jean Pierre Rampal's record, the *Classic Flute*.

For your average dinner music lover, that might be too erudite.

But not for Mel Gevanter. To him, Rampal's classic tootling is like truffles to an epicure.

For hi-fiers, today's incredibly sophisticated equipment is an opportunity and a means to an end. It enables them to enjoy musical excellence which they have neither the desire—nor perhaps the ability—to produce themselves.

High fidelity—long for hi-fi—means reproducing every tone of music in its undistorted, unaltered form. It can be monophonic, stereo, or quadrasonic. To get as close as possible to the original sound, hi-fi buffs use an almost bewildering array of gadgets—tweeters, woofers, graphic equalizers, pop-and-click eliminators, dynamic-range expanders, time-delay units, and dolbyized tape—in addition to basic components like amplifiers, tuners, receivers, and speaker systems.

You needn't be an electronic whiz or a musical genius to be a hi-fi fan.

Nor a millionaire. You can get a good, basic system for about \$300 to \$350, experts say. Nationally, that adds up to around \$3 billion annually.

As a hobby, hi-fi took off after World War II. But its roots





go much deeper. It all began with Thomas Edison's first phonograph. He obtained a patent for it on Feb. 19, 1878. It was a cylinder wrapped with tin foil; it recorded sound and played it back. Not well, but recognizably.

The first historic words recorded by it were recited by Edison himself:

Hallo! Hallo! Hallo!

Mary had a little lamb,

Its fleece was white as snow,

And everywhere that Mary went

The lamb was sure to go.

Ha! Ha! Ha! Ha! Ha!

**B**UT THE GADGET WAS no laughing matter.

It was a sensation in show biz—on the stage, in lecture halls, at fairs. As Roland Gelant writes in his book, *The Fabulous Phonograph*:

"It would talk in English, Dutch, German, French, Spanish, and Hebrew. It would imitate the barking of dogs and the crowing of cocks. It could be made to catch cold and cough and sneeze so believably that physicians in the audience would instinctively begin to write prescriptions."

Hi-fi began to blossom with FM radio. Four hundred stations were under construction in 1947. And magnetic tape revolutionized the record industry in 1949.

That was also the year the first Audio Fair was held in New York.

Some say that was hi-fi's birth day.

**S**OUND is pretty powerful stuff. William Congreve, the English poet, claimed:

"Music hath charms to soothe the savage breast,

To soften rocks, or bend a knotted oak."

It sure works that way on Robin De Vita.

She's president of Accurate Computer Data Service, a Los Angeles firm she started two years ago. Her sound system covers half the wall of one room in her apartment. It includes six speakers.

"Two of them," she says with a laugh, "are as big as refrigerators."

"Some people, usually kids, brag about how much power they have. I tell them: 'You want to hear the music, not separate the nails from the studs in your wall.'"

"The power isn't to blow you away with hard rock. It just permits you to achieve greater fidelity of sound."

A self-taught expert who installed all her own equipment, she finds music stimulating—and soothing.

## A Sound Buy in Hi-Fi

What does a good hi-fi system cost?

Not necessarily an arm and a leg, says the Institute of High Fidelity, Inc., the association of hi-fi equipment makers.

The 1978 edition of its *Official Guide to High Fidelity* explains:

"You can put together an economy high-fidelity component system for \$300 to \$350. Such systems may or may not include FM radio reception and will certainly not include tape facilities, which are usually thought of as an addition to the basic system."

A solid, middle-priced system will range from \$400 to \$800, with a tremendous choice of components available, the guide says.

Depending on taste and need for perfection, it is not impossible to spend considerably more than \$1,000 for a high-powered, dream system, the guide says.

You can put one together almost piece by piece.

"It is unnecessary," the guide points out, "to buy everything at once. If FM radio intrigues you, you can start with just three components:

A good stereo receiver and two loudspeakers. You can always add a record player later—or a tape deck, either open-reel or cassette."

What part of the total should go for each component?

Take a four-piece system—record player and cartridge, stereo receiver, and two speakers.

A typical cost breakdown, the guide says, would be 25 percent for the record player and cartridge, 40 percent for the stereo receiver, and 35 percent for the two speakers.

For a more elaborate, six-piece system, it says, the figures would be: Record player, 15 percent; tuner, 15 percent; open-reel tape deck, 25 percent; integrated amplifier, 20 percent; and two speaker systems, 25 percent.

Those breakdowns, while typical, should be flexible.

"The main thing to avoid," the guide says, "is assembling a system in which one inferior component becomes the weakest link in the chain and limits the overall performance quality of the entire system."

When she comes home from a hard day at the office, she turns on the music.

"Probably," she says, "Stravinsky's *Rite of Spring*, or Beethoven's *Fifth Symphony*. Something very strong and dynamic."

"And it just relieves all that anxiety and pressure."

Occasionally, she plays something from *Stop the World—I Want to Get Off*.

"But even if it's been a bad day, I still try to keep it positive," she says. "Recently, a company sent me a \$32,000 check for merchandise it had bought. The check bounced. The company was bankrupt."

"That evening, driving home, I switched my FM radio from its usual soft music station to a black rock station. I heard a recording called *I Will Survive* by Gloria Gaynor. It's about a woman whose boyfriend walked out on her."

"She sings: 'You thought I'd lay down and die. Well, not I. I'm going to get up and survive.'"

Robin De Vita, self-made businesswoman, laughs.

"I just loved it," she says. "And I thought—so will I."

That 45 rpm is now part of her record collection.

**M**OST hi-fi buffs buy their equipment ready-made.

But not Allan R. Scharf. He rolls his own.

Like Robin De Vita, he has speakers that could sizzle your eardrums. He designed them himself.

His home in Scottsdale, Ariz., is wired so that he can plug speakers in all over the house. He wired it himself.

He has four amplifiers, four speakers, two tape recorders—one open-reel and one for cassettes—one turntable, an equalizer, a preamplifier, and what he calls several switching things.

"Most of my electronics," he says, "I built myself."

Usually, hi-fi buffs get into it through an interest in sound. Al Scharf, manager of the marketing aerospace group for Motorola, Inc., got into it through electronics.

"I grew up when TV was in its infancy," he says. "I was intrigued by it. I

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decided to go to college and study engineering to find out how it worked." Having grown up in a musical family, he appreciated music, too.

"What happened," he says, "is that I liked music so much that I thought it ought to be reproduced right."

That's a trait common to all of the hi-fi fraternity. In the best sense of the word, they're perfectionists.

**W**HY is musical fidelity so important? Hi-fiers say it's for aesthetic reasons.

If you have a tin ear and wouldn't know if the bass is muddy or the violins are screeching, then don't waste a dime on hi-fi equipment.

"If your demands aren't high," says Richard L. Fausett, "buy a \$6 transistor radio."

Whether it's a blessing or a curse, hi-fiers can't settle for fuzzy sound. Some go ape over Bach. Some find their apotheosis of enjoyment in the Grateful Dead.

That's not meant to contrast the depth of musical sophistication with the height of faddism. It simply describes the span of musical experience that hi-fi makes available.

As Jacques Barzun, a heavy thinker, once observed, it makes yesterday's music live again and today's music immortal. In a sense, he says, hi-fi did for sound what the printing press did for the classics.

**D**ICK FAUSETT, vice president of the corporate finance division for Union Bank in Los Angeles, makes this comparison.

"My wife and I like to go to the symphony. But in a way, I'd rather be at home—if I've got the ability to reproduce the sound that comes from a symphony orchestra.

"At home, I can be in my old clothes, smoke a cigar, have a drink, or sit on the floor. I don't have the distraction of people around me or the hassle of driving back downtown.

"It's something like watching football on TV instead of in the stadium.

"A lot of guys would rather watch it at home. Say, sitting in a comfortable chair, a sandwich in one hand and a beer in the other, a fire in the fireplace if it's cold.

"But you are probably not satisfied if the set's black and white instead of color, if the sound is blurred or fuzzy, or if there are 44 players on the screen instead of 22.

"Same way with sound."

Furthermore, a hi-fi system can provide instant stereo nostalgia.

"Most of the music we listen to," he says, "would be classified as mellow or easy listening—Neil Diamond, Barbra Streisand, a little bit of fifties music."

"I had a nice childhood, and it's sort of fun to listen to the fifties music—and remember."

Listening to the opera in Mary Gardiner Jones's townhouse in the Georgetown section of Washington, D.C., is like hearing it live.

When she was young in New York City, her uncle used to take her to the old Metropolitan Opera House.

Perhaps she was his favorite niece.

Or the only kid in the family who didn't run away from that kind of an invitation.

"It was a thrill for me to go with my uncle," she says. "He was Livingston L. Short, my mother's brother, and a great figure to me. He was president of General Motors Acceptance Corp."

"So by the time I was 12, I was a great opera fan."

**A**FTER GRADUATION from Wellesley, a wartime stint with OSS, a law degree from Yale, and nine years as a member of the Federal Trade Commission, she is now vice president, consumer affairs, for Western Union Corp.

When the old Metropolitan Opera was closed, its furnishings were sold.

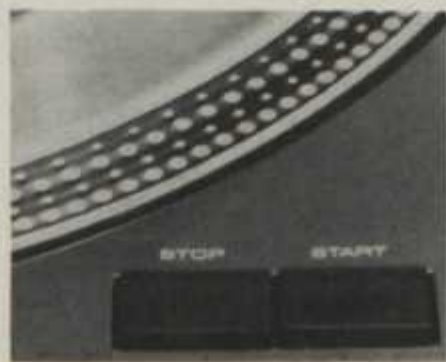
"My sister," she says, "bought one of the chairs and gave it to me as a present."

It's now in the den of her home, where her own hi-fi system is installed.

You can sit there, in that Metropolitan Opera chair, and listen to almost anything that has ever played the Met. Mary Gardiner Jones has them all in her extensive tapes collection.

"The chair has the most beautiful velvet you've ever seen," she says, "and it's the most comfortable chair you ever sat on—all real down."

"It has a piece of chewing gum, which I never removed, stuck to the bottom. The chair," she says with a smile, "must have come from the balcony, not the orchestra." □



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# LODGING:

## Hotel Chains Are Building More Room at the Inn

By Mary Tuthill

**I**F WASHINGTON had actually stayed at all the places that proclaim, "George Washington slept here," his hotel bill would have exhausted the U.S. Treasury. Even in colonial times, the lodging industry had come a long way since the Jamestown Inn was established in Virginia in 1607.

Before the Founding Fathers installed Gen. Washington as the country's first

This tremendous growth began in small establishments where it was not uncommon for several strangers to share a room—and sometimes a bed. Then in 1829, Tremont House opened in Boston and introduced modern hotel-keeping. With 170 rooms, it was considered the largest and costliest hostelry in the world. And it offered single or double rooms.

Nation's Business  
**INDUSTRY  
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REPORT**



The Holiday Inns chain began with roadside motels like this. Today, the emphasis is on downtown locations and sites near airports.

President, inns and lodging houses had sprung up along expanding transportation routes to accommodate coachmen, riders, salesmen, politicians, and the few adventurous people who had some reason to travel.

In 1976, the U.S. Travel Data Center calculated that nearly 2.9 billion "person-nights" were spent away from home on trips of more than 100 miles in one direction. (In industry jargon, a person-night is one person's length of stay in a hotel. For example, if one person stayed three nights, that would be three person-nights.)

There are 2,032,100 rooms available to house those travelers. In 1978, room sales were \$16.1 billion, with an occupancy rate of 68 percent—the highest ever.

As the industry continued to grow, many hoteliers competed to build each new hotel bigger and better than existing ones. Extravagance in hotels soon reached the point where a British actor staying at New York City's St. Nicholas Hotel said that he dared not put his boots out for cleaning lest they come back gilded.

Other hotel owners were content to make their profits providing a minimum of service to the maximum number of people. But suitable accommodations for the middle-class American traveler and the increasing number of commercial travelers were hard to find.

That pattern was broken in 1908 when Ellsworth M. Statler opened his first hotel, the Buffalo Statler, advertising "a room and a bath for a dollar and a half."

At last there was a clean, modern hotel offering service and comfort at a price the average person could afford.

Another pioneer, whose name has become almost synonymous with hotel, was Conrad Hilton. Young Hilton returned from World War I to buy his first hotel in oil-rich Cisco, Texas. He described it as "a cross between a flop-house and a gold mine."

### Waste space

As Mr. Hilton upgraded his first property and bought others, he put into practice some of the systems and techniques used by most successful hotel corporations today. These included eliminating waste space in the lobby by installing shops and display areas, purchasing food and furnishings in bulk, and giving each establishment an individual personality.

At the time of Mr. Hilton's death last January, his chain controlled 64,000 hotel rooms. By then, Holiday Inns, Inc., the country's number one chain, had 286,529 rooms. From an industry which once barely supported an innkeeper, his wife, and sometimes a couple of servants, the lodging industry in 1978 provided jobs for about 800,000 people.

Nevertheless, travelers are again facing the same problem that plagued the early 19th-century traveler—all too frequently there is no place to stay. Last year, more than 20 million "room-nights" were refused for lack of space, says Mark Van Hartsvelt, director of franchise planning for Holiday.

### No simple answer

"That figure represents the people who called asking for a room for a night or more. We had to turn them away."

"How can this be?" is usually the first response of travelers who are told they must book months in advance or who finally find a room 50 miles from their destination.

There is no simple answer. But some of the reasons behind the growing short-

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age of hotel rooms are more and bigger conventions, increasing business travel, an influx of foreign visitors as a result of the devalued dollar, and a general boost in travel, spurred by low-cost air fares.

### Seasonal peaks vary

Also, seasonal peaks vary from city to city. "New York can be a terrible problem and San Francisco is one of the worst," says Rosalea Early, a district manager for the Ask Mr. Foster travel agency in Washington, D.C.

San Francisco, she says, has two peaks. June, July, and August bring hordes of tourists, and conventions pack the hotels in September and October. New York, however, can remain sold out from September through spring.

Washington also has cyclical no-vacancy periods, says Leonard Hickman, executive vice president of the Hotel Association of Washington, D.C. The city, he estimates, has about 13,000 rooms. But at times, none is available. The big months are March, April, May, October, and November. "There also are peak days," says Mr. Hickman. "Monday through Thursday is always heavy, but things ease up on the weekends."

The reason is that more than 50 percent of the lodging business comes from conventions, only about 15 percent is tourism, and the rest is commercial.

### Weekend specials

Because of this pattern, hotels in Washington, New York, San Francisco, and most other cities try to attract weekend visitors to fill the vacant rooms. The offers include special packages and reduced rates for conventions that come early or remain over the weekend. New York packages frequently offer one or more Broadway shows, dinner at certain popular restaurants, and sightseeing.

Promotion, however, is only one factor in hotel growth. If current trends in population, travel projections, and hospitality industry receipts continue, 145,000 new rooms will be needed annually over the next 20 years, says William L. Sommer, chairman of the leisure time industries committee for the international accounting firm of Laventhol & Horwath.

Mr. Sommer also predicts that industry growth will require more than 300,000 full and part-time food service employees annually for the next 20 years. By 2000, the two fields will have about 12.8 million jobs, he says.

Hotels, particularly major chains, are studying the evolving market carefully. The significant changes, says Mr. Van Hartsvelt, include:

- A steady increase in the number of

families with incomes in excess of \$20,000—a group that rents four times as many room-nights as those with lower incomes.

- A predicted 50 percent rise in the number of individuals aged 35 to 49, the group with the greatest propensity for travel.

- The growing independence of women, who are traveling more for business and pleasure and who have more money to spend.

Mr. Van Hartsvelt also notes the declining birthrate, which, he says, means "that adults in the future will have more free time for trips and more discretionary dollars available for taking those trips."

"The challenge," he says, "... is to be where the action is with what the action wants."

This, he says, means that instead of more roadside inns being built, new hotels will be located near airports and in urban and suburban locations to cope with increasing air traffic. In addition, the

Along with convenience, hotel guests also want individualized services and treatment. Mr. Sommer says: "The hospitality industry must be prepared for a more informal customer whose tastes are individual and well-defined."

Some hotels are certainly trying to meet individual needs. For example, Hyatt has jogging tracks near its hotels in San Francisco and Palo Alto, Calif., Orlando, Fla., and will soon open a track on Oahu, Hawaii.

Accommodations will be needed at every level, from the no-frills room and bath to luxury suites with self-cleaning ovens and palatial sitting rooms at resort hotels.

One of the latter, now under construction, is the \$80 million Hyatt Regency on Kaanapali beach on the Hawaiian island of Maui. When completed, it will add 820 rooms to the 2,200 rooms already on the island.

The hotel, the largest single construction project in Hawaiian history, will con-



The Ilial Hotel on Waikiki Beach, Hawaii, is typical of newer hotels that offer an increasing number of recreational facilities.

growing demand has already resulted in the renovation of a number of older downtown hotels. In New York, such famous hotels as the Belmont Plaza—now the Doral Inn—the St. Regis-Sheraton, the Taft, and the Barclay have been given face-lifts. So have the Fairfax and Mayflower hotels in Washington, D.C. And the capital's historic Willard, long vacant, will be reborn from its empty shell.

Other recent renovations include the Biltmore in Los Angeles, the Fontainebleau in Miami Beach, the Warwick in Philadelphia, and the Raphael in both San Francisco and Kansas City.

sist of three towers. Its lobby—the size of three football fields—will feature a waterfall.

Downtown luxury hotels cater to different needs. The new Four Seasons Hotel in the Georgetown section of Washington, D.C., which is scheduled to open this summer, will emphasize service. Features include a fine French restaurant, 24-hour room service, overnight valet service, and high tea served every afternoon.

"Lodging establishments constructed in the next 25 years," says Mr. Sommer, "will be similar physically to those of today except that they will contain more





There is seldom a vacancy at the 44-room Maryland Inn in Annapolis, Md., built in 1772. Unlike modern hotels, it still features 18th-century furnishings and fireplaces, along with up-to-date conveniences like air conditioning.

built-in recreation facilities and more sophisticated equipment for security and energy conservation."

One security measure now being introduced in hotels, including the Paris Hilton, is a plastic card that will replace the traditional hotel key. The magnetically-coded card is inserted in a slot to open the door. The codes are changed every time a guest checks out, thereby thwarting thieves. A lockout button inside prevents a maid from opening the door with her pass card.

#### Computerized inventories

Not all of the new security measures will be directed at protecting guests. Hotels face an increasing need to protect themselves from guests and employees. A certain amount of souvenir hunting is expected, and items such as ashtrays bearing the hotel's name can be written off as promotion. But thefts of silverware, glassware, linen, and choice cuts of meat are a big problem.

To offset this, computers are being used for fast and accurate inventories. Better lighting and electronic devices are being tried to reduce theft in food, beverage, and equipment storage areas.

"Other new features will include auto-

matic transportation of baggage—particularly for groups—and instant registration, checkout, and credit checks, all monitored by sophisticated minicomputers," says Mr. Sommer.

Computers already have brought changes, especially in the reservation systems of larger hotels and chains. And their increasing use is expected to alleviate major problems such as double billing and lost reservations.

But computers are not fail-safe. A young executive with seven years' experience in Washington shudders when he thinks about one computer error.

"We had to find rooms for several tour buses—about 200 people," he recalls. "It was only one error, but that's the kind of thing that gets compounded in a computer."

#### Need to overbook

Overbooking, another problem of the industry, is rapidly being corrected. Hoteliers say that if they did not overbook, the number of rooms that went unclaimed would lower their occupancy rate to below the break-even point of about 65 percent. At the same time, managers realize that few things can outrage customers more than finding that confirmed reservations have been sold to someone else.

Now, through the use of credit cards and guaranteed reservations, overbooking has greatly diminished. The hotel is guaranteed payment whether or not the guest uses the room, and the guest knows that if he has car trouble or his flight is late, the room will still be there.

#### Hope for economy traveler

While luxury accommodations in New York and some other major cities cost as much as \$100 a night, the low-budget traveler needn't give up hope. Chains such as Motel 6—with its uniform economy rates throughout the country—are also expanding. At its motels, \$9.90 will pay for a single; a double room costs \$13.95.

The chain, which got its start in Santa Barbara, Calif., in 1962, now includes 262 motels, mostly in the South and West, and is adding about 25 new motels a year. Daniel R. Shaughnessy, company president, says he expects to be operating in New England in the early 1980s and throughout the country eventually.

Mr. Sommer predicts that by 2000 room rentals, which now account for 62 cents of the lodging industry dollar, will rise to slightly more than 72 cents. Food and beverage sales and other receipts will make up less of the total but will experi-

## Travel Boom Covers the World

"Tourism is second only to oil in total world trade receipts," says Lord Hirschfeld, president of Laventhol & Horwath International.

The accounting firm estimates international tourism spending at more than \$46 billion in 1977. When combined with domestic tourism, the sum soars to about \$350 billion, which means that six percent of the gross world product was spent on travel.

Some of the reasons for this international travel boom include shorter workweeks and longer vacations, rising per capita income, a more stable world economy, lower air fares, and Europeans taking advantage of travel bargains in the United States.

An overall increase of about 11 percent took place in 1977, and the figure for 1978 is expected to be slightly higher. While that increase was matched by some countries, it was far surpassed by others.

Israel had a 23 percent increase in tourism, and the lodging industry showed a six percent increase in rooms available. Portugal experi-

enced a 47 percent increase in tourist arrivals, a 62 percent increase in nights spent in hotels, and a 94 percent increase in net revenue from tourism. This recovery follows the near collapse of tourism three years ago because of political unrest.

Politics also will affect tourism in the Far East. With the opening of diplomatic relations between the United States and China, tourism has a new frontier.

Hotel accommodations are limited in China, as are all types of housing. But Inter-Continental Hotels already has a contract to provide 5,000 rooms in China. The chain plans a 1,000-room hotel in Peking and has not yet decided in which cities it will build additional hotels.

Western International Hotels will send a delegation to Peking to discuss building a hotel in China.

"Vice Premier Teng Hsiao-ping is already somewhat familiar with our hotels," says a spokesman for the chain. "He stayed in two of them when he visited the United States."



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ence similar growth. Says Mr. Sommer: "To increase productivity and still provide quality products with fewer high-priced skills available or affordable, the typical restaurant will reconstitute food that has been prepared in a central kitchen."

While technological developments may assure more uniformity and quality, few hoteliers are expected to retain the extensive menus still common in most table-service restaurants.

Holiday Inns already has started introducing a common-menu, common-price restaurant throughout the chain. Although there is less variety, restaurant patrons know what they can get and how much it will cost at any Holiday Inn in the country.

cope with the same seasonal and weekend slow periods that hotels have.

"Originally," says Mr. Green, "the summer months and December were slow. However, in the past few years we've gotten some of our best business in the summer, and the first two or three weeks of December are very strong as well."

The firm offers special package rates for weekend meetings or those beginning on Thursday and ending on Sunday. These times, says Mr. Green, are especially popular with sales groups that don't want to lose weekday selling.

All this growth, however, could be slowed by the gasoline shortage.

First to feel the pinch will be facilities

from the man in the street to large insurance companies, an association spokesman says. An increase in investment capital could hasten the time when the supply of new hotel rooms will keep pace with the rising demand.

### Some foreclosures

The supply went up pretty quickly in the early 1970s, says J. Willard Marriott, Jr., president of the Marriott Corp. "One reason was that lenders advanced money to people who had no experience in the lodging business. Many of those ventures didn't work out, and there were some foreclosures."

Now, he says, it is almost impossible for an independent entrepreneur to get financing for a new hotel. The major banks and mortgage firms are lending only to experienced hoteliers and to the major chains.

Another source of capital which Mr. Sommer expects to increase in the next 20 years is foreign investment. Japanese investment in Hawaii and on the West Coast has jumped in the past five years, he says. And at least two U.S. chains—Travelodge and Knott—are owned by an English company. Other properties are owned by French, Irish, and Italian corporations. Chains in Hungary and South Africa reportedly are seeking U.S. properties.

### Increased enrollment

Investors are not alone in their interest in the hotel boom. More and more young people are anxious to make the hotel business a career.

"We've had an increase in enrollment, especially in the number of women, in the past few years," says Annette Penny, director of admissions at the Lewis International School in Washington, D.C.

Ms. Penny says the school also has an increased number of minority students and foreign students from Korea, Nigeria, Japan, and the Arab countries.

"Lewis, the oldest hotel training school in the country, has been operating for 63 years," says Ms. Penny, "but until recently few colleges and universities had similar training. Cornell University offers a degree in hotel management, and several other schools have various courses of study."

With the increasing number of hotels and conference centers and a growing force of well-trained people to manage them, the lodging industry has a comfortable future. □

## Hotel Chains Play the Odds

Hotels are taking a gamble on casinos to provide a big new market in the next few years.

Resorts International has racked up a profit of more than \$162 million since its debut in Atlantic City in May, 1978.

Four new hotel and casino complexes are expected to open by July, 1980, to hasten the transformation of the decaying resort area into a glittering Las Vegas of the East. The opening of Resorts International alone created 2,400 jobs.

Bally Mfg. Corp. plans to pump more than \$50 million into its proper-

ty, and Caesar's World, Penthouse, and Hi-Ho are also in the game.

Even Holiday Inns, Inc., has caught the gaming fever. "We're in the process of developing a property in the marina area of Atlantic City," says Mark Van Hartsvelt, director of franchise planning. "We're approximately 75 percent of the way through the approval process for a \$55 million, 505-room hotel."

Officials say they expect convention business to double within five years and the number of overnight visitors to increase from one million to three million by the early 1980s.

The increased amount of hotel business attributable to conventions and conferences has sparked another trend—the conference center. Although there are only 25 conference centers in the United States, compared with about 65,000 hotels, new centers are now under construction, and one company plans to build two each year.

"The underlying concept of our firm is to provide a variety of special meeting environments," says Walter A. Green, president and chairman of the board of Harrison Conference Services. Almost a decade ago in Glen Cove, N.Y., the firm set up a center with specially designed conference rooms and recreational facilities in a secluded but easily accessible setting.

"It's a total environment that offers specialized facilities and all necessary services to the small meetings market," he says.

With only one market, the centers have had to find ways besides tourism to

that are reached mainly by automobile. But hotels in the big cities could also suffer if the fuel shortage leads to increased air fares, fewer flights, and an end to bargain packages.

Fewer and more costly flights also could cut the number of overseas visitors, which has been growing steadily. Last year, New York was host to more than two million overseas arrivals—twice the number ten years ago.

The short-lived 1973-74 Arab oil embargo, which stopped Sunday gasoline sales for three months, cost the tourism industry 90,000 jobs and \$717 million, says the American Hotel and Motel Association. No one in the lodging industry wants to see a repeat of that situation, but most believe that rough times are ahead.

Even with the looming energy crunch, so many people are convinced the hotel boom will continue that the hotel association has had to install a hotline for investor queries. Potential investors range



To order reprints of this article, see page 94.





A typical Motel 6, where a minimum of cash still buys all the basics, usually includes a swimming pool.

PHOTO: KATHARINE SEUTER



The hotel industry in glamorous Las Vegas and other resort areas is the dominant economic factor.



Centerpiece of Detroit's \$337 million Renaissance Center is the 73-story Detroit Plaza Hotel.



The dining room of the Sheraton Palace Hotel in San Francisco shows what can be achieved by careful preservation.



The lobbies of modern hotels such as the Hyatt Regency in Atlanta are often spectacular as well as functional.



PHOTO: EVERETT C. JOHNSON—LENSMAN



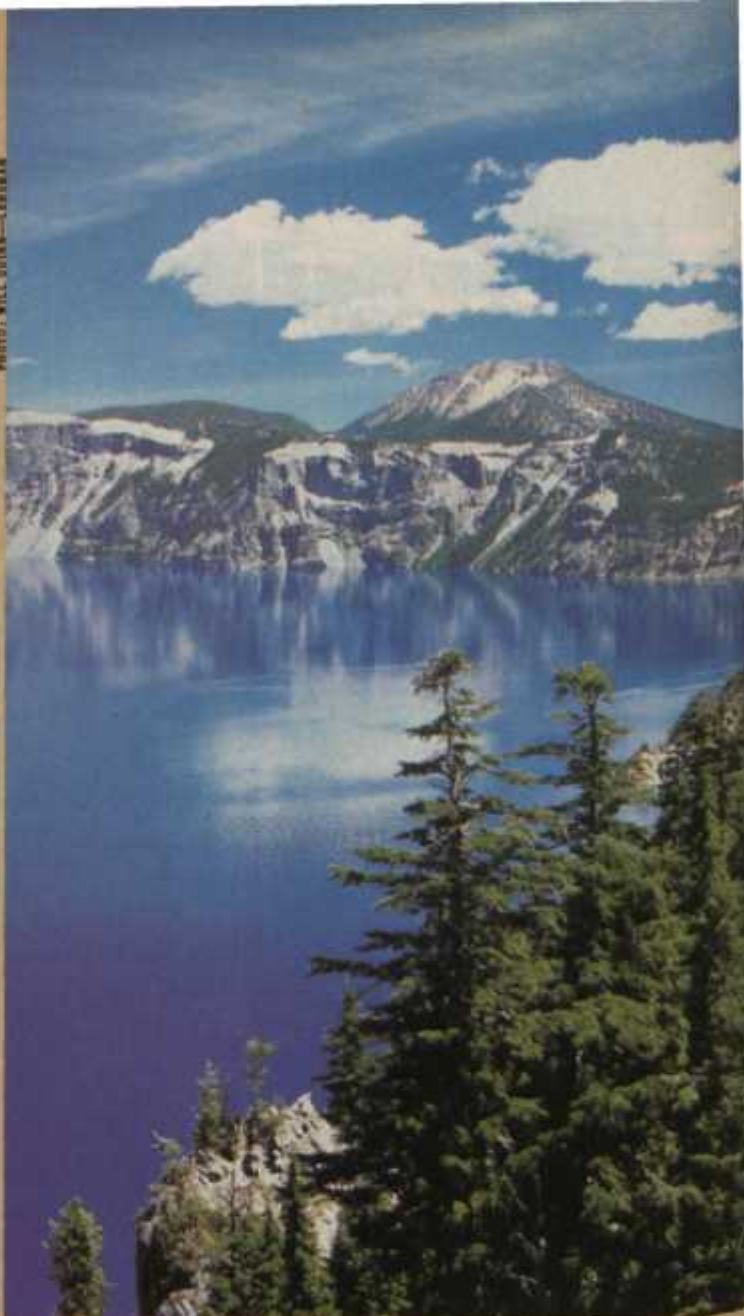
Automobiles, the foundation of the American life-style, are a major cause of pollution, but carbon monoxide levels are dropping steadily.

PHOTO: JOHN LAUNDRIS—BLACK STAR



The steel industry spends \$500 million annually to operate pollution control equipment. Bethlehem Steel's plant in Indiana emits clean steam.

PHOTO: WILL SUEN—LENSMAN



Clear air over Crater Lake, Oregon, shows nature at its finest, but some wilderness areas such as the Great Dismal Swamp give off noxious gases.

PHOTO: MICHAEL J. FETTER—UNIPRESS

PHOTO: JOHN LAUNDRIS—BLACK STAR



The \$37 billion that utilities must spend for antipollution devices by 1985 will be passed on to consumers.

Industry has spent \$80 billion on devices like this gas elimination stack to comply with air standards.



# Business Needs a Breather From the Clean Air Act

EPA enforcement of zero-risk standards is choking development

By John M. Eddinger

**T**HE CLEAN AIR ACT of 1970 was enacted with the noblest intention—to make the air good to breathe. Nine years later, the act is choking industrial development, and the Environmental Protection Agency promises even more restrictive enforcement in the future. The trade-off is: How much pure atmosphere should be sacrificed to ensure a growing economy?

Everyone likes to breathe clean air and see forever on a clear day. But in 1979, the nation cannot afford to have air as pristine as that inhaled by cave-men.

Ironically, had the Clean Air Act been in effect when primeval man discovered fire, he would have had to extinguish it or develop an antipollution device for the smoke.

In the years since the act was

passed, the balance between clean air and development has changed. Inflation has become a persistent cancer, fueled by rising energy costs. The biggest drain on the U.S. economy was the \$42 billion spent last year to import about 50 percent of the nation's petroleum needs.

## Larger trade deficit

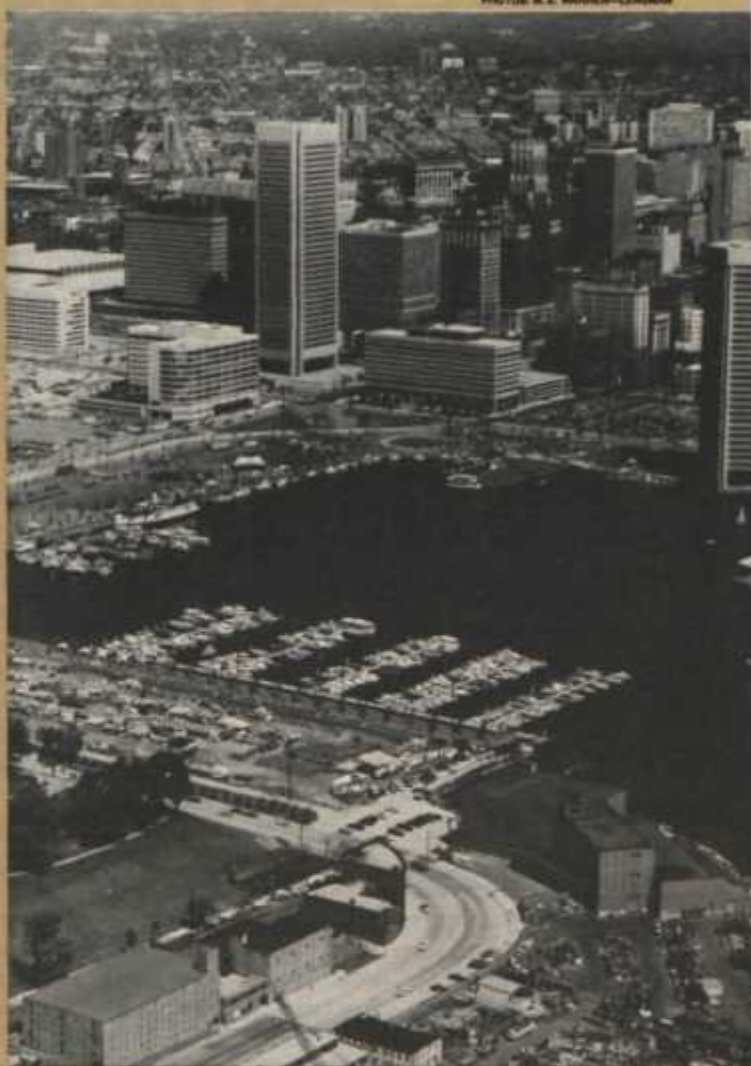
The balance-of-trade deficit last year exceeded \$39 billion and will probably increase this year. America's strongest exports are agricultural products, jet planes, and computer know-how—all requiring high technology. Overseas, lower labor costs and modernized industrial plants challenge America's once-vaunted productivity.

The U.S. productivity growth rate has long been on a downward spiral.

From an overall annual growth of 2.3 percent from 1965 to 1973—down from 3.1 percent for 1955-65—the rate hit an abysmal 0.4 percent last year, according to the Productivity Center of the Chamber of Commerce of the United States.

The steadiest growth has been in manufacturing, with an annual rate of 2.2 percent in 1976. At the same time, our chief manufacturing competitors stayed far above that rate: 3.5 percent in Canada, 5.8 percent in both West Germany and France, and 8.9 percent in Japan.

The only way to increase productivity is by capital investment in modern plants and equipment. Yet, private industry has already invested \$80 billion to comply with the act's air emission standards and will probably add more



Industrial cities such as Baltimore face a real dilemma in balancing the need for clean air with continued economic growth.

PHOTO: R. E. WARREN—LENNMAN



than \$70 billion to that sum in the next five years, says the National Chamber.

The money has not been misspent, according to EPA. Some of the gains EPA counts are:

- More than 85 percent of the plants and factories that are major potential sources of air and water pollution are now complying with antipollution laws.
- Rivers from the St. Johns in Florida to the Willamette in Oregon are being reclaimed from the blight of pollution. The stretch of the Potomac that borders Washington, D. C., has improved to the point where it now supports as many as 60 species of fish.
- Carbon monoxide levels from automobile exhaust have been cut by 20 percent. Smog levels held steady between 1972 and 1977—despite a 30 percent jump in vehicle miles.

#### Billions of dollars saved

Agency economists investigating the health benefits of air pollution control have concluded in a report that if the nation could reduce pollution levels by 60 percent, it would realize benefits of \$36 billion a year.

"Between 1970 and 1977," according to EPA Administrator Douglas Costle, "air pollution controls reduced air particulates by 12 percent; this reduction is saving \$8 billion a year in workers' wages and productivity."

That figure does not take into account the fact that air pollution levels would have risen higher since 1970 without pollution control laws. Nor do the study results include other types of damage caused by air pollution: Lower crop yields on farms in polluted areas, damage to materials eaten away by acidic pollutants, or the cost of building maintenance in dirty areas.

#### EPA report disputed

The National Chamber gives little credence to the EPA report Mr. Costle quotes. Says Gary D. Knight, the Chamber's director of environment and land policy: "The Wyoming University study used by EPA was blown full of holes by the National Commission on Air Quality."

"In fact, the Wyoming study was an extrapolation of a University of Michigan study that was limited to 400 individuals in 301 counties, only 118 of which have any air quality data."

"The Michigan study was intended solely to determine why some people break away from poverty and others do not."

The Clean Air Act was designed to control the amount of pollution in the

heavily developed areas of the country where the major sources such as automobile and steel-making plants are concentrated.

In the act, Congress identified six basic pollutants—sulfur oxides, ozone, carbon monoxide, nitrogen oxide, oxides, and total suspended particulates—and gave EPA a free hand to set standards to protect the public health and welfare.

#### Stricter regulations

From the outset, certain environmental groups such as Friends of the Earth and the Sierra Club have demanded regulations stricter than the act's provisions, particularly for areas where the air was still clean. The environmentalists also lobbied strongly on Capitol Hill, and in 1977 Congress tightened the act's requirements.

The amendment that affects business the most concerns significant deterioration. This means simply that in parts of the country where the air is cleaner than the present standards for protection of the public health, the air will not be allowed to get any dirtier.

This presents a real dilemma. Where is industry going to expand? How are alternative sources of energy going to be developed? Can residential areas be built to accommodate shifting populations? How can the U.S. economy grow?

"We do not have a zero-risk society," says R. Robert Brattain, former chairman of the technical advisory committee to the California Air Resources Board. "No one has ever suggested that we pay the price for one in any human endeavor—except for air pollution control."



More than 85 percent of industry is now complying with antipollution laws, says EPA Administrator Douglas Costle.

EPA has adopted a zero-risk philosophy in enforcing the act. The agency has set standards below the point at which the most sensitive individuals might be affected. Instead of establishing a danger level compatible with available data, the level is set where the risk is zero.

However, Mr. Costle points out, the well-known disaster at Love Canal in Niagara Falls, N. Y., occurred because of a total lack of environmental controls. So far, the cleanup—including evacuation of families and purchase of their homes—has cost the state government \$23 million.

#### Kepone disaster

Also, he says, the Kepone disaster at Hopewell, Va., could have been prevented for an investment of \$200,000. So far, claims against the company involve about \$20 million. And it is doubtful whether a federal investment of several billion dollars would suffice to clean up the James River, Mr. Costle adds.

By the end of this month, the states must have final EPA approval on workable implementation plans for pollution control of industry. In the rush to meet the deadline, many states simply have adopted EPA's guidelines.

Despite the facts that EPA's approval process takes four months and many states face the cutoff of federal funds because their plans have not yet been submitted, an EPA spokesman says: "The deadline is in the law, and we're still aiming for it."

To allow more elbow room, Rep. Wes Watkins (D-Okla.) has introduced a bill, cosponsored by more than 100 representatives, to extend the deadline to 1980. "In reality," says Rep. Watkins, "anyone who doesn't expect an environmental group to file a restraining order forcing the cutoff of funds has his head in the sand."

#### Unreal and unattainable

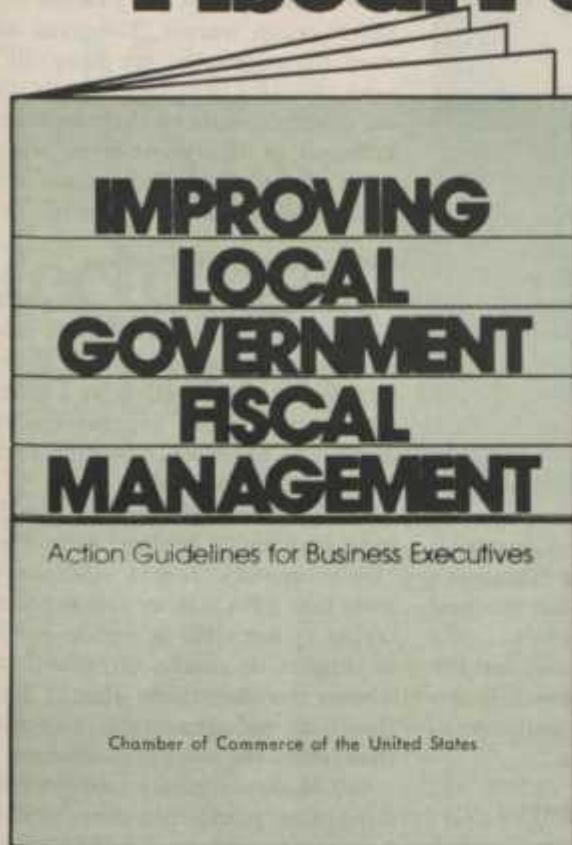
He points out that "extending the deadline doesn't address the real problem. The basic problem is that the act is based on unrealistic and unattainable air quality standards."

If the deadline is extended, business will still have to have all required pollution control devices in place by Dec. 30, 1982.

As far back as 1975, Robert Miki, a Commerce Department environmental economist, was warning: "The more crucial concern is that in the years ahead pollution abatement control requirements, promulgated without due



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regard for the benefits and costs, will make it more difficult to maintain a growing and stable economy."

Today, there are many examples of the difficulties encountered by companies that want to develop.

Standard Oil of Ohio had planned for five years to spend \$1 billion on bringing Alaskan oil to Long Beach, Calif., and transporting it from there to the oil-short Midwest and East by pipeline. After \$50 million in expenses, submission of more than 700 applications, and numerous clean air complications, Sohio decided to cancel the project.

#### Still in doubt

It has now been resumed, but only after White House intervention. And whether the project will ever get off the ground is still in doubt. Meanwhile, the West Coast is awash in Alaskan oil, and firms are looking overseas to Japan as a readily available market.

All that oil is unrefined and doesn't help the current gas shortage in California. The Clean Air Act doesn't help either by making it difficult to obtain permits to build new refineries.

Hampton Roads Energy Co. has been trying for nine years to build a low-sulfur fuel refinery in Portsmouth, Va., but has had problems with the area's biggest hydrocarbon polluter, the Great Dismal Swamp. Because of decaying animal and vegetable matter, the swamp emits noxious gases. Unfortunately, the law cannot force Mother Nature to install pollution control equipment.

Hampton Roads has spent more than \$7 million, and the project is still pending. During the years of planning and delay, the cost of the refinery has leaped from an estimated \$85 million to \$650 million.

#### Proposal rejected

The price the nation will ultimately pay is that industry will locate elsewhere.

Since 1974, Dow Chemical Co. had been planning a \$500 million petrochemical plant in northern California. The local air pollution control agency called Dow's initial plans the cleanest it had ever seen, then turned around and rejected the proposal.

Why? Because the allowable increase in hydrocarbons for the locality precluded the plant, which would have had emissions equivalent to just 40 new catalyst-equipped cars. After two years and at a cost of \$4 million, Dow pulled out and recently announced plans for an \$800 million petrochemical plant in Saudi Arabia.



The act is based on unrealistic and unattainable air quality standards, contends Rep. Wes Watkins (D-Okla.).

For its part, EPA contends: "We are merely carrying out the law. We have no choice in many cases."

The costs of pollution control are enormous. As Harold Short, chairman of the board of the Flatiron Companies in Boulder, Colo., puts it: "The more industry is finding out about the real lack of benefits that will result... the more it is becoming convinced that the American public may very well be being ripped off by supposedly well-meaning environmentalists."

#### Greatest consumer impact

The utility industry has the greatest single impact on the average consumer when forced to pass on higher electricity costs resulting from pollution controls. EPA estimated pollution control costs for utilities would increase by six percent between 1975 and 1985. The industry estimates a \$37 billion increase, which would raise consumer prices by 15 percent.

The paper industry has already spent more than \$3 billion on pollution control. More than a third of the cost of each new paper mill will go toward meeting environmental requirements.

The steel industry, despite problems with foreign imports, labor, and capital investment, must come up with another \$3.8 billion—on top of the \$4.9 billion already spent—to meet 1985 clean air requirements.

This will double the costs of an industry already spending \$500 million a year to run existing pollution control equipment.

For foundries, an industry where small business predominates, EPA estimated the cost of compliance to be \$600 million between 1970 and 1978.

The industry, in fact, spent \$600 million in 1974 alone.

"The problem is," says Mr. Costle of EPA, "that by failing to make prudent investments in environmental protection years ago, we are forced to pay a much higher price today."

Should the entire Clean Air Act be reconsidered by Congress? Hardly. Rafe Pomerance of the Friends of the Earth group warns: "Congress won't want to reopen the act after all the work it did in 1975 and 1976. If it did, our position would be that the act isn't sufficient in its present form." Among other things, Mr. Pomerance wants more areas declared no-growth.

#### Independent evaluation

What is needed is an independent evaluation of the research EPA used in setting the pollution control standards. Rep. Watkins has called for a congressional inquiry into whether the standards are based on scientific fact or preconceived notions.

Dr. Phyllis J. Mullenix of the Harvard University Medical School says: "Unfortunately, recent evidence suggests that EPA is more concerned with trying to force the scientific evidence to support its preconceived notions of where the standards should be set than with trying to establish standards that reflect the scientific evidence."

Dr. Mullenix points to EPA's standard for photochemical oxidants (ozone) as an example. EPA rejected the recommendations of its own science advisory board and set the standard at one third of the level determined safe by scientific testing.

Congress had assigned the board responsibility for checking the validity of EPA's scientific conclusions after a series of hearings to investigate charges that EPA misrepresented the results of its own studies.

The board said EPA's ozone standard was largely speculative, its validity was questionable, and it appeared to justify preconceptions.

The expressed intent of Congress in passing the act was: "To protect and enhance the quality of the nation's air resources so as to promote the public health and welfare and the productivity of its population."

It is now time to determine whether the regulatory efforts of EPA have tipped the balance too far toward clean air at the expense of the nation's economic welfare.



To order reprints of this article, see page 94.



# Federal Money May Recharge Electric Cars



Instead of a gas nozzle, the owner of a Buzbun uses an electric cord to refuel. The car is built by South Coast Technology of Santa Barbara, Calif. The converted VW Rabbit's batteries are recharged by 110, 208, or 220-volt power.

**E**ARLY in this century, there were more electric vehicles on the roads than gasoline-powered vehicles. But the superior performance of the internal combustion engine soon changed that, and the gas buggies sped ahead in sales.

However, a few decades from now, electrics may again be a common sight on the nation's streets. The federal government is boosting an electric vehicle industry to counteract dwindling fuel supplies for internal combustion engines.

The reason for the boost is that electric vehicles—called EVs—still don't perform much better than they did 50 years ago. General Motors says its experimental vans are "generally comparable to today's conventional vans with two major exceptions: their 40-mile range and 50-mph top speed."

While golf carts and forklift trucks are powered by battery-supplied electricity, their technology is not suitable for commercial highway use.

A few, more sophisticated EVs do exist, but primarily in laboratories, on test tracks, and at trade shows.

There are some electric vehicles on public streets, but none is being mass produced on the scale associated with Detroit. In fact, the federal government is the prime mover in the EV industry, mainly because of the Elec-

tric and Hybrid Vehicle Research, Development, and Demonstration Act of 1976.

The Energy Department is promoting EVs with \$160 million for research and development, vehicle demonstrations, and production incentives. So far, the government has obligated about \$52 million. Officials estimate that total program costs could reach \$500 million by 1990.

## Private firms

Under the act, which was amended in 1978, the government will demonstrate 10,000 electric vehicles in both private and government use. The program, just getting under way, has placed 165 vehicles among five private firms and 35 vehicles among several federal agencies.

The demonstration project is being managed by Booz, Allen and Hamilton, Inc., a private consulting firm. The cost is high, according to the General Accounting Office. In fiscal 1978, \$5.7 million was budgeted for the initial demonstration of 200 vehicles—that's \$28,500 per vehicle.

Purchases in fiscal 1979 are estimated at \$20,000 per vehicle for 600 vehicles. In fiscal 1980, 1,700 vehicles will cost \$16,000 apiece. GAO points out that \$44 million will be spent just to buy 2,500 vehicles. It questions wheth-

er demonstrating 10,000 EVs is necessary.

Private demonstrators in the first phase have until this October to select and take delivery of their vehicles. The demonstrators are:

- American Telephone & Telegraph Co. in Los Angeles, which is buying 20 vans plus another 15 not in the program from General Motors for use in telephone installation and repair service;

- Consolidated Edison Co. of New York, Inc., 40 EVs from Electric Vehicle Associates in Cleveland for field supervision, meter installation, parts pickup, motor pool, and commuting;

- Long Island Lighting Co. of Mineola, N. Y., 60 EVs from the Cleveland firm and from Jet Industries, Inc., of Austin, Texas, for van pooling, meter reading, and service cars;

- Penn Jersey Subaru, Inc., of Pennsauken, N. J., 25 EVs for sale or lease to small companies and individuals; and

- Walt Disney World of Lake Buena Vista, Fla., 20 EVs for motor pool and repair service.

Bill Persons, Disney World's project manager, expects to take delivery of the vehicles in midsummer. Disney World will get 14 pickup trucks, three half-ton vans, and three four-passenger sedans. Mr. Persons is unsure





A step van by Batronic Truck Corp. of Boyertown, Pa., illustrates the commercial use of electric vehicles, which are ideal for city delivery of lightweight goods.



A lightweight flywheel that spins in a vacuum at up to 25,000 rpm aids acceleration and hill climbing for this motor developed by the Garrett Corp. of Los Angeles.

whether the vehicles will have enough range for practical use.

Government standards say demonstration EVs must be able to run 31 miles between charges for the first year of operation. After that, performance can drop to 75 percent, or slightly more than 23 miles.

#### Low wind resistance

In addition to the demonstration program, the Energy Department is looking into a car of the future that can be built experimentally today. The department has contracts with the General Electric Co. and Chrysler Corp., working together, and with the Garrett Corp. Standards call for cars that will cruise at 55 mph, recharge in six hours, cost \$5,000 (in 1975 dollars), and meet federal safety standards.

The GE-Chrysler car will include advanced electronics and a body with low

wind resistance. The Garrett car will feature a drive-train design using a light, composition flywheel and a single-unit plastic body and frame.

According to the GAO, the experimental project is plagued with cost overruns of about \$2 million on total initial contracts of \$11.7 million. In addition, some of the design goals may not be met—the cars won't sell for \$5,000, and they won't recharge in six hours.

GAO's reservations about private-sector demonstration programs were detailed in a 52-page report entitled: *The Congress Needs to Redirect the Federal Electric Vehicle Program*. The GAO thinks the EV is such a good idea that it favors federal agency demonstration programs that can work out the bugs before the cars are put on the market.

GAO does not disagree with the En-

ergy Department on the market potential of EVs. Both expect 8.6 million electric vehicles on the road by 2000. This would be about five percent of the anticipated 190-million vehicle fleet, based on assumptions that the EVs would have a 100-mile range and would cost about the same as conventional vehicles.

Such use of EVs would save 200,000 barrels of oil a day, but that's only two percent of the 1977 oil import level. Furthermore, says GAO, "automobile fuel economy improvements expected in the next two decades must also be considered."

"For example, substituting EVs for commuter cars getting 40 miles to the gallon will obviously produce less dramatic oil savings than substituting EVs for cars which today get 20 miles per gallon."

EVs and conventional cars are



The 18 batteries of the General Electric Centennial car slide out as a unit for servicing.

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equally efficient—about 12 percent. Conventional cars lose efficiency in the engine; EVs lose it in the generation and transmission of electricity. The advantage of EVs is that the electricity can be generated by other fuels. Assuming that vehicle batteries will be recharged at night when demand for electricity is lowest, current generating capacity should be sufficient.

Environmentally, substituting EVs



Endura is a test vehicle for Globe-Union of Milwaukee, a major manufacturer of batteries for electric passenger cars.

for conventional cars would improve air quality and reduce noise slightly. GAO cites a 1978 study that says electrifying ten percent of vehicles by 2000 would reduce vehicular pollutants less than five percent. And if all cars were EVs, noise would drop by ten percent.

There are many barriers to the commercial production of EVs. GAO criticizes the Energy Department for its emphasis on lead-acid batteries. Instead, it says, federal money should underwrite high-risk research into batteries such as lithium-metal sulfide, which have greater potential, and into hybrid vehicles that combine batteries and a small internal combustion engine to increase the vehicle's range.

Another problem: The industry consists of small firms, which typically have limited capital, production capacity, supply channels, and experience.

In marketing, high costs, poor performance, uncertain resale values, and poor public perception of EVs hamper sales. Other barriers include the limited number of recharging facilities, minimum speed laws, few service facilities, questionable insurability, and unfavorable highway designs that include steep hills.

To help overcome the hesitation of major automakers to jump into the EV market, Sen. James A. McClure (R-Idaho) wants to include electric vehicles in the calculations for average fleet fuel economy requirements, now scheduled to go up to 27.5 miles per gallon by 1985.

At the Energy Department, one of the cheerleaders for electric vehicles is Anthony H. Ewing, chief of the demonstration and incentives branch, who zips around Washington in an electric van.

If the internal combustion engine is king, he says, the EV is the archduke-in-waiting. While batteries may never achieve the performance of gasoline engines, they will provide motive power for a lot of urban vehicles. He forecasts ten million EVs by 2000.

#### Modified Rabbit

One of the contenders for jumping from test lab to production is a three-door, two-passenger electric car named the Buzbun, built by South Coast Technology, Inc., of Santa Barbara, Calif.

The firm's president, Harold Siegel, says one of his staff chose the name when he got license plates for the first model. The "Buz" stands for the sound of an electric motor, and the "bun" is taken from bunny, because the car is a modified Volkswagen Rabbit.

Mr. Siegel started his company 18 months ago, following 20 years of product planning and new product development for Ford, Chrysler, and American Motors.

Using conventional lead-acid batteries, which Mr. Siegel feels are adequate for present needs, the Buzbun will have a range of 58 miles, due to a braking system that generates electricity and recharges the battery when the car decelerates. The car will go from zero to 30 mph in ten seconds, five seconds faster than government's standard, and will recharge in eight hours. Top speed is 65 to 70 mph, says Mr. Siegel, and cruising speed is 55 mph.

#### Thousands by 1980

The firm has made three of the vehicles so far, and seven more will be completed this month. Five are going to the Tennessee Valley Authority, one to a major auto manufacturer, and one will be used for crash safety tests. Mr. Siegel expects to produce several hundred vehicles by the end of the year. In 1980, he says, the firm hopes to make several thousand Buzbuns.

South Coast Technology is just one of the 234 U. S. firms in the electric vehicle industry listed in the annual directory of the Electric Vehicle Council. While these companies scramble to develop technology for the years ahead, one firm, the Eltra Corp. of Toledo, runs a full-page ad with the headline: "Introducing the car of the future."

It's a 1914 electric roadster.



# Pessimism Pervades Economic Expectations

**A**merican workers are rapidly growing more pessimistic about the nation's economy.

"Consumers fear higher prices and taxes and lower real income during the next 12 months," says the Economic Policy Center of the Chamber of Commerce of the United States.

Its analysis is based on the National Chamber's quarterly worker survey conducted by the Gallup Organization during March. A cross section of 850 full and part-time, high and low-income men and women workers was interviewed.

Only ten percent of the workers—representing union and nonunion, blue and white-collar, skilled and unskilled—now think the economy will get better in the next year, 29 percent expect things to remain the same, and 53 percent anticipate a worsening situation.

A majority of workers with different backgrounds expects double-digit growth of energy prices in comparison with other prices. Seventy-three percent of all workers expect gasoline prices to rise by ten percent or more in the coming year; 70 percent expect a similar increase in home heating fuel prices; 58 percent expect electricity prices to increase by ten percent or more; and 55 percent expect all prices to rise by that amount or more in the next year.

## Little confidence

"Workers are becoming increasingly pessimistic about inflation during the next five years," the policy center says, and this is reflected in pessimism about the government's ability to fight inflation while maintaining low unemployment.

Inflation was 10.2 percent during the preceding 12 months, and 55 percent of the workers expect it to go higher, 38 percent expect the rate to remain the same, and only six percent envision a drop.

The effect of inflation on real income also worries workers. Fifty-six percent expect their real income will be lower in the next 12 months in contrast to 53

Economic Outlook Next 12 Months			
	Better	Same	Worse
Winter	17%	39%	39%
Spring	10%	29%	53%

Tax Outlook Next 12 Months			
	Higher	Same	Lower
Winter	55%	28%	17%
Spring	62%	31%	7%

Inflation Outlook Next 12 Months			
	Higher	Same	Lower
Winter	42%	45%	13%
Spring	55%	38%	6%

Real Income Outlook Next 12 Months			
	Higher	Same	Lower
Winter	12%	35%	53%
Spring	11%	33%	56%

Workers' Personal Financial Position						
	Compared With One Year Ago			Estimate for One Year Ahead		
	Better Off	Same	Worse Off	Better Off	Same	Worse Off
Winter	49%	23%	28%	58%	23%	19%
Spring	45%	28%	27%	50%	27%	23%

percent three months earlier. Only 11 percent expect their real income to be higher, and 33 percent expect to have the same level of real income in the coming year. The survey also found that more workers expect taxes to increase faster in the coming year than they did in the past year.

According to the Labor Department, personal income and social security taxes increased 11.2 percent for the average production worker from March, 1978, to March, 1979. That figure compares with an 8.4 percent increase in average earnings during the same period, says the policy center.

Sixty-one percent of workers surveyed last March on social security benefits and payroll taxes favor collecting social security payroll taxes from all workers, including federal government employees who are now excluded. More workers want to reduce less important social security benefits rather than increase social security payroll taxes. Also, workers support the current social security payroll

taxes rather than a national sales tax or a value-added tax.

Forty-six percent of workers favor a special teenage minimum wage rate at 15 percent below the adult minimum for the first six months of a teenager's employment; 49 percent are opposed.

That figure changed, however, when those workers opposed were told that the proposal would open up an estimated 400,000 new jobs and reduce consumer prices by 0.5 percent. With that information, 65 percent of all workers favor the special minimum wage rate.

A majority of workers believes the recent growth of international trade is leading to an increase in domestic jobs and output. A majority of workers who had an opinion does not expect the increase in trade to reduce inflation.

Although pessimistic about general inflation, taxes, and personal income, most workers say they are personally better off or at least as well off as they were a year ago. Fully one half expects to be better off one year from now. □



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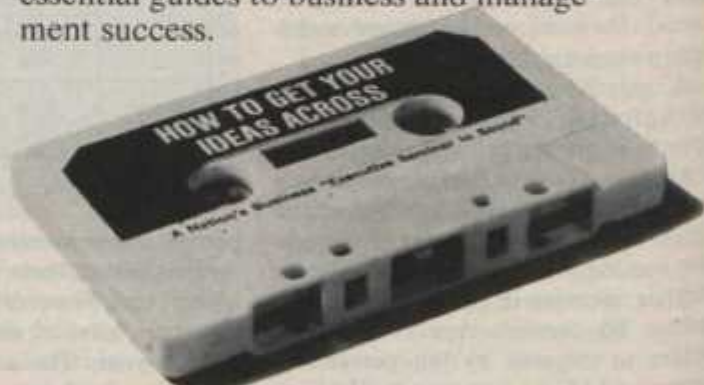
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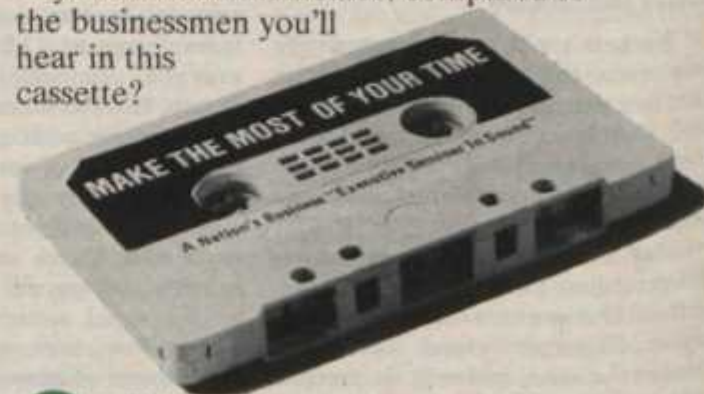
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# Land Use or Land Abuse?

Conservationists want more wilderness,  
but the nation needs timber and minerals.  
Where should Congress draw the line?

By John H. Jennrich

**W**HEN PRESIDENT CARTER opened up 36 million acres of federal lands to logging, mining, and drilling in mid-April, public reaction was predictable. Conservationists bemoaned the loss of wilderness. Business welcomed the opportunities.

A month later, when the House of Representatives passed a conservationist Alaska lands bill, the reactions were reversed.

To understand the wilderness-vs.-development controversy, some background is helpful. The United States comprises 2.3 billion acres, of which the federal government owns 742 million acres, or about one third. Three fifths of the land is privately owned. The remaining seven percent is owned by state and local governments.

About 19 million acres scattered throughout the country are protected by the Wilderness Preservation Act of 1964. More millions of acres are designated as national forests, parks, or wildlife refuges. In total, the acreage off limits to all development equals 0.8 percent of U. S. territory; if these lands were in one place, they would be about the size of South Carolina.

## Some pressure

Mr. Carter's decision to release 36 million acres for development was part of the second Roadless Area Review and Evaluation—known as RARE II. This review of 62 million acres in 38 states and Puerto Rico was done by the U. S. Forest Service. Following its recommendations, Mr. Carter asked Congress to designate 15.4 million acres as

part of the wilderness preservation system.

He also asked the forest service to study further RARE II's remaining 10.6 million acres before recommending any status.

There is some pressure to make the decisions on the 10.6 million acres fairly soon. The forest service promises "no RARE III," suggesting instead that local public hearings will provide the necessary information. The National Forest Products Association favors a two-year limit on further study; the American Mining Congress suggests a five to ten-year limit.

In addition to RARE II and the House-approved Alaska bill setting aside 67 million acres as wilderness, there are several proposals to designate another 22.9 million acres as wilderness.

## Almost California

These proposals would add up to 105.3 million acres in the wilderness preservation system. That's 4.6 percent of the total U. S. land, or roughly equivalent in size to California.

In addition, the Interior Department's Bureau of Land Management is now taking inventory of its continental U. S. holdings, totaling 174 million acres. A preliminary assessment, available later this year, will eliminate those parcels that obviously are not wilderness. Decisions on what lands to propose as wilderness must be made by 1991. The bureau expects to beat that deadline by several years.

In 1964, wilderness was defined legislatively as "an area where the earth

and its community are untrammelled by man, where man himself is a visitor and does not remain." This translates into a ban on roads and motor vehicles plus restrictions on land uses such as timbering, mining, grazing, and extraction of oil and gas.

Few people will ever venture any appreciable distance into wilderness lands. Those who do may travel only on foot, by horse, or in a canoe.

Conservationists say the land should be protected to preserve America's scenic heritage and to maintain an untouched, unpolluted environment for wildlife. They say that developers have 95 percent of the land now but won't be happy until they have it all.

Developers, on the other hand, call conservationists unrealistic for not facing up to the crucial need for timber and minerals. Proponents of wilderness selfishly want to set aside a lot of land for a very few backpackers, developers charge.

People who live near government land or in pockets inside the preserves complain that they bought their land before the government designated the land wilderness. Now, they are prohibited from developing their own property.

## Vitriolic controversy

There is no shortage of vitriol in the controversy. One example: Earlier this year, David A. Witts, general counsel of the National Association of Property Owners, equated environmentalists with communists. "Civilization is again under siege from an enemy who would smash its wealth-producing ma-



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The timber industry, seeking to supply U.S. demand for wood products, favors multiple use of public lands.

Though millions of Americans camp every year, few except dedicated backpackers will trek into wilderness areas.



The presence of resources like coal should be considered in wilderness area designations, say mining firms.



chine, wreck its economy, lock up its resources, curtail its energy, redistribute its land, and return it to the Dark Ages, to an era of no growth," he said.

Some people are surprised that the federal government owns so much land. But ever since seven of the original 13 states ceded western lands to the federal government between 1790 and 1802, the federal government has accumulated vast acreage. These holdings have been augmented by major federal acquisitions such as the Louisiana Purchase in 1803 and the Alaska Purchase in 1867.

According to a General Accounting Office report: "At one time or another, about 80 percent of the 2.3 billion acres of land in the United States became the property of the federal government through purchase, annexation, or seizure. Over the years, however, title to about 1.1 billion acres has been transferred to individuals, businesses, and nonfederal governments."

#### No sign of man

What to do with the rest is vigorously debated. Sen. John Melcher (D-Mont.), chairman of the Senate Agriculture Committee's environment, soil conservation, and forestry subcommittee, says that much of the eastern federal land proposed for wilderness designation "doesn't fit my view of wilderness." He sees wilderness as a place where "there's no sign of man and nev-





Caribou coexist with the Alaskan oil pipeline, but Congress is considering how much of Alaska's 365 million acres to put off limits to development of oil, gas, and minerals. The federal government owns 90 percent of the land.

## The Alaska Compromise

A large part of the federal land debate centers on Alaska. And there President Carter's administration is clearly conservation-minded. Interior Secretary Cecil Andrus has even labeled developers "the rape, ruin, and run boys."

On the other side, developers say that the administration and Rep. Morris Udall (D.-Ariz.), the conservationist chairman of the House Interior Committee have been neglecting energy, timber, and mineral needs.

The 49th state has vast quantities of pristine land largely unexplored for resources, especially critical minerals such as lead, zinc, molybdenum, tungsten, asbestos, nickel, and copper. Areas that have been explored show great mineral wealth.

Much of the land is wilderness by any definition. With 365 million acres, Alaska is more than twice the size of Texas, the next largest state. More than 90 percent of Alaska is owned by the U. S. government.

According to the 1959 statehood agreement, the state is to get 104 million acres of its choosing; so far, it has received only one third of that.

In 1978, the House of Representa-

tives passed, 277 to 31, a bill to set aside 74 million acres as wilderness.

Due to opposition from the Alaska delegation, especially Sen. Mike Gravel, the Senate failed to pass a similar bill. President Carter and Secretary Andrus then used the Antiquities Act and other powers to freeze development on more than 100 million acres. The freeze can be thawed only by congressional action.

Early this year, the new Congress started over again. Rep. Udall, whose Interior committee bill passed the House last year, introduced a conservationist bill. His committee substituted a measure from Rep. Jerry Huckaby (D.-La.) that is similar to a compromise worked out last year.

Meanwhile, the House Merchant Marine and Fisheries Committee considered a compromise bill pushed by Democratic Reps. John B. Breaux of Louisiana and John D. Dingell of Michigan. It was too development-oriented for most conservationists to support.

Rep. Udall countered with a new bill cosponsored by Rep. John B. Anderson (R.-Ill.). Last month, the House passed the Udall-Anderson measure, 268-157. The bill puts 67 million acres

into the wilderness system and gives lesser protection to another 59 million acres. In the Senate, the bill faces tough opposition, especially from the Alaska delegation.

Sen. Ted Stevens (R.-Alaska) called the House vote unfortunate. "Because of the national monuments created by President Carter and the new land withdrawals made by Secretary Andrus, we may not have enough leverage to gain concessions in the conference committee," he said. He blamed the House vote on the administration and "extreme environmental interests."

Alaska Gov. Jay Hammond, who has a reputation as a conservationist, says that if the only choices were rip-it-up development or lock-it-up conservation, he would opt for the latter. But, he says, the extremes are not the only choices. He favors well-controlled development that will do as little damage as possible to the environment.

Rep. John M. Murphy (D.-N. Y.), chairman of the House Merchant Marine and Fisheries Committee, says: "Alaska is an enormous state. It can easily accommodate both development and conservation."



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er will be," but many eastern properties do not meet this criterion. He says timber, oil, and gas are not the only resources available from lands. "I do think there is a significant value in solitude found in wilderness."

Tim Mahoney is national RARE II coordinator for the Wilderness Society, an environmental organization that had favored setting aside as wilderness the 36 million acres Mr. Carter opened up to development.

### Artful compromiser

Mr. Mahoney agrees that much of the debate is an us-vs.-them confrontation between environmentalists and various industry groups but says: "Congress is a very artful compromiser." He predicts that not all RARE II decisions will be made during the 96th Congress but the legislators "will resolve a significant portion, though that may not translate into many acres."

"Wilderness exists today because people want wilderness," he says, "and Congress recognizes that."

The National Forest Products Association generally favors multiple uses for public land. It does consider reasonable, however, a total of 25 to 30 million acres of wilderness land in national forests as suggested in an assessment mandated by the Resources Planning Act of 1974.

In Capitol Hill testimony earlier this year, Joseph B. McGrath, vice president for the association, said the timber shortfall due to wilderness proposals would be about 20 percent. He also criticized the forest service's timber sales. The fiscal 1980 budget calls for sales of 11.7 billion board feet, down from 12.4 in 1979, "while the act's goal is 14 billion," he said. "The federal timber sales program is obviously moving in the wrong direction."

### Needed resources

The oil and gas industry can only speculate on the worth of the land being considered for wilderness. Ditto for the mining industry. Both groups say they need time to explore these lands; both worry that a wilderness designation would prohibit further exploration and development of needed resources.

The American Petroleum Institute says: "We hope that the mineral potential of these areas will be considered during the [congressional] deliberations." An API spokesman added: "Locking the land up for backpackers can be counterproductive."

A similar view is held by the Atlantic Richfield Co. A spokesman says the

company favors multiple-use designation for any land that has oil, gas, or hardrock mineral potential. In an extensive evaluation of RARE II lands, ARCO concluded that the economy cannot afford governmental policies that deny companies the opportunity to seek energy and mineral resources. Nor can it "afford land management programs which preclude development of such resources already discovered."

The American Mining Congress suggests that the problem of getting out underground resources is compounded by the timber industry.

In congressional testimony earlier this year, David W. Delcour of the Climax Molybdenum Co. said: "If national forest surface resources are to be properly managed, there must also be considerable attention and study devoted to the subsurface resources."

### Exploration time

Mr. Delcour said the mining companies are concerned that decisions about the Alaska lands, RARE II, and the Bureau of Land Management's acreage are being made without adequate information about the presence of minerals. He wants Congress to allow 20 years beyond the time that land is put into the wilderness system for exploration. During this time, he said, the federal government should conduct surveys and guarantee access to the land for mining claimants.

John R. McGuire, chief of the forest service, says that areas proposed for wilderness will be protected until Congress makes its decisions, but notes that "nonwilderness uses whose effects are transitory" such as snowmobiling might be allowed.

He favors leases to oil and gas companies to explore the study areas, particularly in the Rocky Mountain Overthrust Belt, which covers much of Utah, Idaho, and Wyoming. Roughly five percent of the overthrust belt has been designated wilderness; the rest is open to development.

### Huge quantities

America's wilderness lands—especially the unexplored or little explored lands in the West and in Alaska—could supply huge quantities of vital resources, many of which are now imported. The problem with the wilderness system designation is that it precludes exploration for these resources.

Wilderness is important, but extracting mineral wealth may be more important. Without exploration, how can the decision-makers know? □

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# America Could Use Mrs. Thatcher's Remedy

UNTIL LAST MONTH, Great Britain was a useful example for proponents of two widely divergent viewpoints in the United States.

For the business community and prominent economic conservatives, the symptoms of the "English disease" were the problems of our own society: High inflation, high taxes, low productivity, excessively powerful labor unions, costly social services, a bloated public sector, and inefficient subsidized industries.

For some American liberals, on the other hand, Britain demonstrated how a people can come to terms with a no-growth economy. Since the British tend to be extraordinarily civilized, the degree of their discontent was difficult to assess. They seemed to have an infinite capacity for muddling through devastating strikes and disastrous inflation with imperturbable equanimity.

Then came the general election of May 3. Polls showed the Conservative leader, Margaret Thatcher, to be less popular personally than her Labor opponent, James Callaghan. Yet, she and her party were swept into office by a comfortable margin.

The British voted for Mrs. Thatcher and the Tories more because of what they stand for than because of who was standing. Margaret Thatcher embodies the best of middle-class virtues. The daughter of a successful village grocer, she became Britain's first woman prime minister largely through her own hard work. She thinks others—men and women—can do as well, given the chance, and she means to give them the chance. "You get a responsible society," she says, "when you get responsible individuals."

Her grasp of economics leads her to the obvious prescription for her country's malaise.

"What we offer," she says, "is lower taxation. If the people don't get that, they won't work harder. And if they don't work harder, we shall not get expansion. We shall not get a higher standard of living."

Prime Minister Thatcher's formula should sound familiar to Americans. The present occupant of the White House promised the same sort of bare-bones government and lower taxes. And like Mr. Carter, Mrs. Thatcher faces at least two difficult challenges.

The first is timing. To cut income taxes, she must also cut government spending. Otherwise, a tax cut would probably worsen inflation. But there will be a lag before the benefits of cutting government spending show up in economic expansion. So the first challenge is: Can she persuade her people to hold still for reduced government services until the payoff?

The second challenge is probably tougher. Can she control Britain's militant unions, which some say have become more powerful than Parliament? Will the unions stand for denationalization of some industries, or will they cripple the Tories' efforts with strikes and bring down the government as they did a few years ago?

If Mrs. Thatcher can contain the unions and restore prosperity to Britain through classic economic principles, she will deserve a big vote of confidence on both sides of the Atlantic. There is a lesson for America in the English election results.

There is a mood of conservatism in the United States which American politicians and labor unions will ignore at their peril. We may not elect a woman President in 1980, but the people are more than ready to vote for lower taxes and reduced government spending. □

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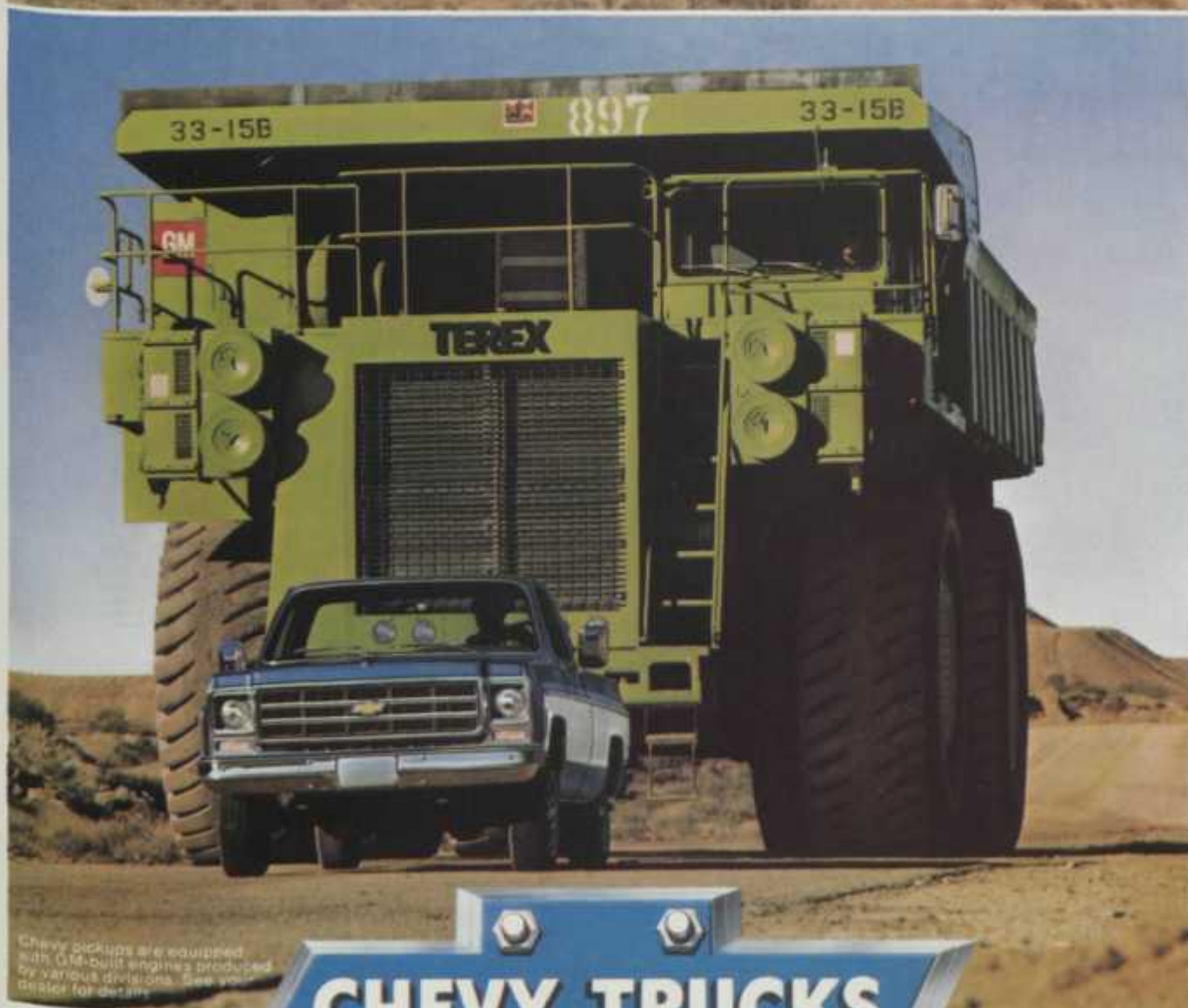


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